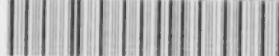


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Lottery Corporation

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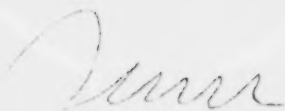
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The 2003/04 British Columbia
 Lottery Corporation Annual
 Report was prepared under our direction in
 accordance with the *Budget Transparency and
 Accountability Act*. We are accountable for the
 contents of this report, including the section on
 performance measures and the reported results. All
 significant decisions, events and identified risks, as
 of June 15, 2004, have been considered in
 preparing this report.



T. Richard Turner
 Chair, Board of Directors



Vic Poleschuk
 President and CEO

T. Richard Turner | Appointed September 26, 2001
 West Vancouver

Arthur Willms | Appointed September 26, 2001
 Vancouver

John Bell | Appointed September 26, 2001
 West Vancouver

Bruna Giacomazzi | Appointed September 26, 2001
 Abbotsford

Mary MacGregor | Appointed September 26, 2001
 Kamloops

D. Neil McDonnell | Appointed April 23, 2002
 North Vancouver

Tazeem Nathoo | Appointed July 26, 2002
 West Vancouver

Donald Pettit | Appointed September 26, 2001
 West Vancouver

Kathy Stevenson | Appointed April 23, 2002
 Kelowna

Vic Poleschuk

Rob Egan | Corporate Development and Information Technology

Jay-Ann Fordy | Human Resources and Organizational Development

Kevin Gass | Corporate Communications and Marketing

Jim Lightbody | Lottery Gaming

Brian Lynch | Casino Gaming

Doug Penrose | Finance and Corporate Services

George Sweny | Bingo Gaming

To the Minister Responsible for British Columbia Lottery Corporation

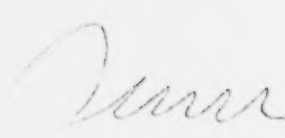
Dear Minister:

British Columbia Lottery Corporation (BCLC) continues to serve the Government and all British Columbians by providing high-quality gaming entertainment in a socially responsible manner, while generating income for the public good.

Fiscal 2003/04 was another banner year for BCLC. For the 29th consecutive year, the Corporation achieved record revenues and net income distribution to Government.

Total sales of \$1.9 billion resulted in net income of \$728 million. Of that, \$720 million was distributed to the Government of British Columbia to support public service programs, primarily in health and education, community and charitable organizations, and municipal programs and services. A further \$8 million was distributed to the Government of Canada.

On behalf of BCLC's Board of Directors, senior management and employees, I respectfully submit the Annual Report for fiscal year ended March 31, 2004.



T. Richard Turner

Chair, Board of Directors



On behalf of BCLC's Board of Directors, I am pleased to report on another successful year of gaming operations and the benefits generated for the people of British Columbia.

BCLC is in the entertainment business, and in recent years the entertainment marketplace has become increasingly more competitive. As a Crown corporation with responsibility to conduct and manage lottery, casino and bingo gaming in accordance with Government policy, we remain committed to delivering high-quality gaming in a socially responsible manner that generates income for the public good.

In exploring ways to strengthen our business and achieve our net income distribution to Government, we continue to respect the decisions of individuals and communities in deciding what types of gaming they want and how much is right for them. This pledge is consistent with the values that guide our Corporation, as well as our dedication to upholding the highest standards of fairness, honesty and integrity in everything that we do.

Government-controlled gaming has grown into a big business in Canada. However, here in British Columbia we continue to take a moderate approach. Although BCLC's revenues have increased

significantly since 1997, the province currently ranks eighth in Canada and well below the average for per capita expenditures on gaming.

Consumers have a multitude of choices in how they spend their entertainment dollars, and gaming must compete among all those options. As part of establishing our position in the marketplace, we respond to and anticipate the needs of our players to create products and venues that offer entertainment value combined with the excitement of the chance to win a prize.

BCLC approaches business challenges by identifying critical issues and opportunities and encouraging innovation and high performance in our workplace. We set our strategic goals and we focus on results.

We are pleased to report that the Corporation has made substantial progress toward the achievement of our goals and objectives that were included in the organization's Fiscal 2003/04 – 2005/06 Service Plan.

The Service Plan establishes strategic goals that measure the Corporation's performance in providing high-quality gaming entertainment, being socially responsible, developing a high-performance organization and generating revenue for vital Government programs.

We are proud of the Corporation's results in fiscal 2003/04. For the 29th consecutive year, BCLC achieved record revenues of \$1.9 billion. Of the \$728 million generated in net income, \$720 million was distributed to the Government of British Columbia and \$8 million to the Government of Canada.

Most importantly, gaming revenues enhance the lives of all British Columbians through direct and indirect financial and economic benefits.

The business of gaming directly employs more than 8,500 people and indirectly employs another 5,000 in British Columbia. Over the fiscal year, our lottery retailers and casino and bingo service provider companies, all private sector partners with BCLC, earned almost \$357 million in commissions and service fees.

Additionally, gaming created valuable economic spin-offs through

the \$643 million in prizes paid to lottery and bingo winners, the purchase of goods and services, facility construction, tourism and hospitality.

Our net income distributed to Government, more commonly described as "where the money goes," supports public service programs, the good works carried out by about 5,800 charitable and community organizations, as well as community capital and operating programs.

In fiscal 2003/04, Government directed more than \$531 million to vital health care, education and social service programs. Charitable and community organizations received \$132 million to deliver programs in the areas of arts, culture, sports, public safety, human and social services, capital projects and parent advisory councils in elementary and secondary schools throughout the province. Host local governments where casinos are located received almost \$45 million, which they allocated to community needs and enhancements.

Government also dedicates \$4 million annually to fund education, prevention, research and treatment programs for problem gambling and for responsible gambling awareness programs. BCLC plays a partnership role in many initiatives surrounding problem gambling and responsible play.

In 2003, the Government of British Columbia released a prevalence study on problem gambling. This independent research shows that more than 95% of adults can choose to be entertained by our games and play them in a responsible way. Less than half a per cent of adults have a severe gambling problem, while another 4% have a moderate problem.

While we are encouraged that these numbers have not changed from the last study nearly a decade ago, we recognize that problem gambling can have devastating impacts on individuals and families.

As such, we must balance our fiscal objectives with our social responsibility obligations as we strive to meet consumers' expectations and compete for their discretionary dollars. People who choose to participate in gaming have the right to do so in an environment that allows safe and sensible choices.

BCLC has the privilege of being a good corporate citizen in every

community in British Columbia through the benefits created by our business and our sponsorship support of community-based initiatives.

In particular, two events were at the forefront over the year. BCLC was a founding supporter of the bid to bring the 2010 Olympic and Paralympic Winter Games to Vancouver and Whistler and we celebrated that success with all British Columbians. The spirit of community brought us together again during the wildfire crisis, when our employees selflessly gave their support to the relief effort in a variety of capacities in the public and in the workplace.

In reflecting on fiscal 2003/04, we pay tribute to the Corporation's most valued asset – our employees. Their contributions allow us to prosper and grow as a high-performance organization dedicated to the values of integrity, social responsibility, innovation and respect.

Looking ahead, we will adapt our business and products to meet the ever-changing marketplace, while continuing to live up to our commitments to social responsibility and responsible growth of the gaming market.

Above all, British Columbians will have confidence in knowing, "When you play, good things happen."



T. Richard Turner
Chair, Board of Directors



It is indeed bold for BCLC to state that the lives of all British Columbians are enhanced through gaming, but we can stand proudly by our words. In fiscal 2003/04, for the 29th consecutive year, the Corporation achieved record net income for the Government of British Columbia to return to all citizens through programs and services for the public good.

Record revenues of \$1.9 billion resulted in net income of \$728 million, of which \$720 million was distributed to the Government of British Columbia and \$8 million to the Government of Canada.

The Corporation was also successful in substantially achieving or surpassing the majority of our performance targets as set in our Fiscal 2003/04 – 2005/06 Service Plan. The Service Plan establishes key performance targets for BCLC in the areas of gaming entertainment, social responsibility, high performance and innovation, and revenue generation.

We are proud that the profit from every dollar wagered here in British Columbia, from the lottery, casino and bingo games of chance players choose for their entertainment, makes its way back to our communities. Health and education programs, charitable and community organizations, host local governments where casinos are located, and programs for responsible play and problem gambling all benefit from BCLC net income.

Millions of dollars go back to our players, too. The anticipation of winning a prize is one of the unique experiences we create through our games. Every day, lucky winners collect prizes that can range from the pleasant surprise of a few dollars to the thrill of hitting a multi-million dollar jackpot.

This was a year that co-workers shared in the good fortune of winning the lottery. A group of 10 employees at a neon sign manufacturer made a last-minute decision to buy a ticket that

turned into a \$7.5 million prize. Another group of 34, an entire bank staff who have purchased tickets regularly for four years, claimed \$500,000.

Our players challenge us to offer them the best in gaming entertainment, and we work hard to earn their business. In partnership with our private sector lottery retailers and casino and bingo service provider companies, we continually strive to offer top-notch products, facilities and customer service.

The Corporation began the 2003/04 fiscal year with a challenging and aggressive agenda for growth and new opportunities identified in seven key strategic initiatives. Despite an eventful year that affected British Columbians' safety, their livelihoods and our economy, significant progress was made in each of these initiatives.

Recognizing opportunities for casino gaming, we continued to consolidate the market through fewer, higher-quality casinos. These sites will offer full-service entertainment options and amenities to meet market demand and be attractive to not just our players from within the province, but also to those tourists who are visiting and choose to spend some time playing in our casinos.

We received municipal approvals to relocate and upgrade casinos in Vancouver, Richmond, Langley, Prince George, Surrey and Coquitlam. In response to player preferences, a segment of older slot machines was replaced with new interactive games and additional slot machines were installed in select locations.

A business plan was approved that will make bingo gaming more profitable and sustainable for BCLC, our bingo service provider partners and the many charitable organizations throughout the province that benefit directly from bingo profits. This plan allows for the relocation or upgrading of existing facilities and the introduction of new, innovative products to support business growth.

Working with host local governments, bingo service providers and affiliated charitable and community organizations, we relocated and upgraded two bingo halls and added two electronic bingo sites.

Bingo Kelowna and the newly opened Enterprise Entertainment in Kamloops are setting the standards for bingo in British Columbia. These purpose-built facilities are designed to provide an enhanced gaming experience by serving both loyal and new players with high-quality customer amenities and the newest products and technology.

Government has given BCLC approval to move forward on developing a model for community gaming centres. These venues are designed to serve local adult markets with a wider variety of bingo, lottery and slot machine gaming choices, as well as high-quality surroundings and entertainment.

Consultation with host local governments and private sector service providers is an important component of the process to establish these centres in the next fiscal year. Once a community expresses interest, population, demographics and a market assessment will be considered in determining a centre's viability. Benefits to communities will include employment opportunities, investment in products and services, and revenue sharing with the host local government.

Over the last five years, growth in lottery sales has roughly matched inflation. Competing gaming and entertainment options, including Internet-based games and gaming, present challenges to BCLC. We are rising to meet those challenges by developing new products, expanding the existing retail and hospitality networks and exploring new distribution channels to better meet player needs.

We entered into a marketing partnership with the Vancouver Canucks, which is designed to increase revenue for both organizations. The partnership included a collectible Scratch & Win ticket that proved so popular that an additional order was immediately printed to meet consumer demand.

In all matters of our business, corporate social responsibility is a core value. While we have made great strides toward ensuring that our products are offered and played in a responsible manner, we know that we can never rest on this issue.

This past year, under the new British Columbia Partnership for Responsible Gambling, BCLC partnered with Government and gaming service providers on a new, comprehensive framework for responsible play. As part of this commitment, \$4 million in gaming revenues annually goes to programs and initiatives that promote responsible gambling and address the harmful impacts of problem gambling in British Columbia.

As we neared fiscal year-end, the Corporation's new Appropriate Response Training (ART) program was being readied for a pilot test. ART has been created to develop and enhance the knowledge, awareness, attitudes and skills of gaming personnel in order to respond appropriately to customers who may be in need of assistance.

We make every effort to ensure that information about problem gambling and the help that is available is widely distributed, and continually remind players to "Know your limit, play within it." Our gaming locations are clearly marked with "19+" age-control messages that are reinforced by our retailers and service providers so that customers understand that gaming products are for adults only.

Our role as a corporate citizen once again took us into communities as we sponsored a variety of festivals, sporting events,

tournaments, exhibitions and conferences throughout British Columbia. These events ranged from major attractions to community-based events of local interest.

At a provincial level, BCLC was one of the founding supporters of the bid to bring the 2010 Olympic and Paralympic Winter Games to Vancouver and Whistler, and we joined with British Columbians in celebrating the bid's success. We look forward to the excitement, opportunities and economic activity that will be created as British Columbia prepares to host elite athletes and guests from around the world.

Such good news was soon followed by the horrific wildfires and a provincial state of emergency. Our BCLC employees, both current and former, were swiftly involved in providing their skills, experience and compassion directly to the relief effort, while their colleagues stepped in to fill their roles. Care and concern was strongly evident throughout our organization as employees contributed professionally and personally during this extraordinary period.

Our people make our company. In the coming fiscal year, we will continue to invest in our employees through a program of organizational development that will take BCLC from its position as a good company to a place among the best. We will continue to strive to provide personal growth and development opportunities, improve leadership practices, encourage innovative thinking, and respect and recognize our employees for jobs well done.

Through our Service Plan, we have set our revenue and net income targets for the next three years within Government's policy framework. Our determined efforts to increase our net income contributions toward Government's public programs will require that we look at new games, new distribution channels and new technologies. We will continue to focus on our players as we improve the quality and entertainment value of our products and our gaming venues.

We look forward to recording another exciting year in our proud history of providing top-quality gaming entertainment in a socially responsible manner, generating income for the public good.



Vic Poleschuk
President and CEO

Benefits for British Columbians



Lottery sales began in British Columbia in 1974. Over 29 years, gaming has generated:

- \$6.6 billion in net income distributed to the Government of British Columbia
- \$156 million in net income distributed to the Government of Canada
- \$8.1 billion in prizes won by players
- \$2.2 billion in commissions and service fees earned by lottery retailers, and casino and bingo service provider companies



BCLC reports to the Ministry of Public Safety and Solicitor General. As an agent of the Crown, the Province has designated the Corporation as the authority to conduct and manage lottery schemes within British Columbia.

Under current provincial gaming legislation, the Corporation has these responsibilities:

- Conduct, manage and operate lottery gaming, including the marketing of nationwide and regional lottery games in association with other provinces of Canada
- Conduct, manage and operate casino gaming
- Conduct, manage and operate electronic and commercial bingo gaming
- Manage the horse racing marketplace

The Gaming Policy and Enforcement Branch (GPEB), Ministry of Public Safety and Solicitor General, regulates all gaming in British Columbia, ensures the integrity of people and equipment involved in the gaming industry and investigates allegations of wrongdoing.

Scope of Operations

BCLC has a head office in Kamloops and a sales and marketing office in Richmond. Our 560 employees are based in the two offices, as well as in field locations and gaming sites through the province.

The Corporation contracts for the sale of our products through a private sector network of about 4,500 lottery retailers, 19 casinos, 32 commercial bingo halls and one horse racetrack gaming centre.

BCLC markets our lottery, casino and bingo products to adults who choose to participate in our games. Under the *Gaming Control Act*, 19 years is the legal age to participate in gaming in British Columbia.

In 1997, the Government of British Columbia introduced a new gaming policy that provided BCLC with opportunities for substantial revenue and profit growth after a decade of limited growth in the traditional lottery market. The Corporation was given responsibility for casino operations in 1998 and commercial bingo operations in 2002.

BCLC's revenues have increased to \$1.9 billion in fiscal 2003/04, compared to \$867.5 million in fiscal 1996/97. The majority of the increase has resulted from the introduction of slot machines in community casinos, the opening of four new destination casinos and additional responsibility for commercial bingo operations.

While gaming in British Columbia has grown significantly over the past few years, on a comparative basis across Canada the province continues to have a moderate level of gaming and ranks eighth for per capita gaming income. Even with BCLC's planned growth over the next three years, the province's per capita gaming income is projected to remain below the Canadian average.

To be a player-focused, publicly respected, performance-driven Corporation

- To provide high-quality gaming entertainment
- To be a socially responsible and respected organization that has a broad base of public support
 - To build and maintain a highly capable and effective business and technology infrastructure to support the growth of our business
- To build a high-performance culture that encourages innovation and supports the growth of the business
 - To generate net income for the public good

Integrity

The games that we offer, and the way we conduct business, are fair, honest and trustworthy.

Social Responsibility

Everything we do is done with consideration of its impact on the people and communities of British Columbia.

Innovation

We encourage and seek ideas that will improve our business and decide and act quickly in response to strategic and competitive market changes.

Respect

Our workplace fosters openness, mutual respect and individual development.

in fiscal 2003/04

Prizes

Paid in prizes to lottery and bingo winners

Costs

\$357 million
Paid to lottery retailers and casino and bingo
service provider companies

\$131 million
Paid in operating costs

\$31 million
Paid in GST

Net Income

\$720 million
Net income distributed to
Government for health, education,
community, charitable and other essential
Government programs

• Prizes paid to lottery and bingo winners	\$ 643 million
• Commissions and service fees paid to lottery retailers and casino and bingo service provider companies	\$ 357 million
• Operating expenses	\$ 116 million
• Ticket printing and bingo paper	\$ 15 million
• GST	\$ 31 million

Distribution to Government of Canada	\$ 8 million
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Distribution to Government of British Columbia	\$ 720 million
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• Consolidated revenue	\$ 384 million
• Health Special Account	\$ 147 million
• Charitable and community organizations	\$ 132 million
• Host Local Governments	\$ 45 million
• Development Assistance Compensation	\$ 8 million
• Problem Gambling Program	\$ 4 million

Economic benefits generated through gaming enhance the lives of all British Columbians. BCLC is proud of our contributions to the British Columbia economy, to Government public programs, and to support thousands of important charitable and community service programs.

From the revenues generated by BCLC, we pay prizes to our lottery and bingo winners and commissions and service fees to our private sector lottery retailers and casino and bingo service providers. We pay for our operating expenses, lottery ticket printing and bingo paper, and we remit the national Goods and Services Tax.

The money remaining comprises our net income, which is distributed to the Government of British Columbia.

BCLC net income distributed to the Government of British Columbia is returned to all British Columbians through programs for health, education, social, community, charitable and municipal purposes.

The Government of Canada receives a portion of BCLC net income under a long-standing agreement with the provinces on the withdrawal of the federal government from the lottery field.

In fiscal 2003/04, BCLC achieved net income of \$728 million, of which \$720 million was distributed to the Government of British Columbia and \$8 million to the Government of Canada.

From the lottery and casino net income distributed to Government, \$384 million was directed to consolidated revenue to support social programs, primarily in health and education.

A further \$147 million was appropriated to the Health Special Account and administered by the Ministry of Health Services. This funding is used for administration, operation and delivery of health care, health research and promotion, and health education services.

Charitable and community organizations are found in every community throughout British Columbia, from Abbotsford in the Lower Mainland to Fort Nelson in the Northern Rockies, from Massett in the Queen Charlotte Islands to Youbou in the Cowichan Valley.

BCLC net income helps support the valuable community service work that these organizations provide in the areas of arts, culture and sport, public safety, human and social services, parent advisory councils in schools, and major capital projects.



In fiscal 2003/04, about 5,800 community and charitable organizations shared in the profits from casino and bingo gaming through Government gaming grants. Government guarantees that charitable and community organizations receive funding of a minimum \$125 million, indexed annually. Of the 2003/04 guarantee commitment of \$136.5 million, BCLC net income provided \$132 million.

Gaming Policy and Enforcement Branch (GPEB) manages the distribution of gaming grants through the direct access program and commercial bingo hall affiliation.

Organizations may apply to GPEB for a direct access grant or for





affiliation with a commercial bingo hall. Affiliated organizations may receive a grant from a portion of the revenue generated at the affiliated hall. In return, they must fulfil in-hall and out-of-hall volunteer hours to promote awareness of their organization.

In the Lower Mainland area, some 2,060 groups received direct access grants and nearly 500 received bingo affiliation grants. On Vancouver Island, 785 groups received direct access grants and about 670 received bingo affiliation grants.

About 370 groups in the Northern Region received direct access grants, while 345 were recipients of bingo affiliation grants. In the Southern Interior, nearly 700 groups received direct access grants and 460 received bingo affiliation grants.

PROBLEM GAMBLING PROGRAM

Under a 1999 Memorandum of Agreement between Government and the Union of British Columbia Municipalities, the host local



government where a community casino is located receives a 10% share of the net income generated by that casino.

Host local governments where destination casinos are located receive a one-sixth share of the net income generated by that casino. Two-thirds goes to Government and one-sixth to the casino proponent for Development Assistance Compensation (DAC).

In fiscal 2003/04, Government disbursed nearly \$45 million to 15 host local governments around the province. These governments may use this money in any way to benefit their communities. Funds have been directed to projects and purposes such as arts and culture, playgrounds, sports fields, road improvements, policing, recycling, parks and youth.

DAC goes toward local economic development associated with a destination casino. This may include a service such as a restaurant, or a facility project such as a convention centre. Destination casino proponents received almost \$8 million in DAC funding.

PROBLEM GAMBLING PROGRAM

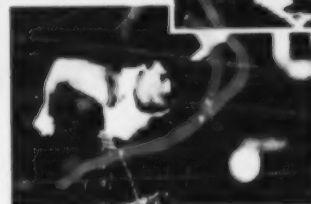
From BCLC's net income, the Government of British Columbia provides \$4 million annually to the Problem Gambling Program that is managed by GPEB.

BCLC works in partnership with the program to reduce the incidence of problem gambling and the harmful impacts of excessive gambling, and to ensure the delivery of gaming in a manner that encourages responsible play.



The program includes community-based counselling services, a 24-hour toll-free Help Line, provincewide education, awareness, research and training initiatives, and advertising and marketing standards.

- Playgrounds and recreational facilities were built or improved, while others were upgraded with new equipment.
- Local groups and services received funding to help a variety of causes, such as public safety, youth activities and community resources.
- Community sports benefited from field upgrades, improved facilities and equipment purchases.
- Parklands and trails were acquired and enhanced for recreational and environmental purposes.
- The arts and cultural activities, as well as community events and heritage were supported.



Lower Mainland	2,066	\$	47,170	492	\$	20,991	2,558	\$	68,161
Northern Region	368	\$	4,190	345	\$	9,174	713	\$	13,364
Southern Interior	694	\$	9,481	459	\$	10,998	1,153	\$	20,479
Vancouver Island	785	\$	13,159	671	\$	14,362	1,456	\$	27,521
Independent Bingo Halls					\$	2,000		\$	2,000
Total \$000	3,913	\$	74,000	1,967	\$	57,525	5,880	\$	131,525

Burnaby	Gateway Casino (c)	\$	7,523	\$	5,968
Coquitlam	Great Canadian Casino (c)		6,863		5,092
Kamloops	Lake City Casino (c)		1,847		1,560
Kelowna	Lake City Casino (c)		2,297		2,001
Ktunaxa/Kinbasket Tribal Council Society	Casino of the Rockies (d)		1,009		475
Nanaimo	Great Canadian Casino (c)		2,531		2,338
New Westminster	Gateway Casino Royal Towers (c)		2,034		1,868
	Royal City Star Casino (d)		4,651		4,496
New Westminster Total		\$	6,685	\$	6,364
Penticton	Lake City Casino (d)		2,047		1,877
Prince George	Casino Hollywood (c)		1,663		1,480
Quesnel	Billy Barker Casino (c)		607		584
Richmond	Great Canadian Casino (c)		2,793		2,185
Vancouver	Grand Casino (c)		1,128		1,024
	Great Canadian Casino Holiday Inn (c)		1,559		1,485
	Gateway Casino Mandarin Centre (c)		875		885
	Great Canadian Casino Renaissance (c)		372		562
	Royal Diamond Casino (c)		—		—
Vancouver Total		\$	3,934	\$	3,956
Vernon	Lake City Casino (c)		1,477		1,241
View Royal	Great Canadian Casino (c)		3,547		3,068
Wells	Jack o' Clubs (d)		27		32
TOTAL		\$	44,850	\$	38,223

c = community casinos (10% share)
d = destination casino (one-sixth share)

Royal Diamond Casino – temporary closure

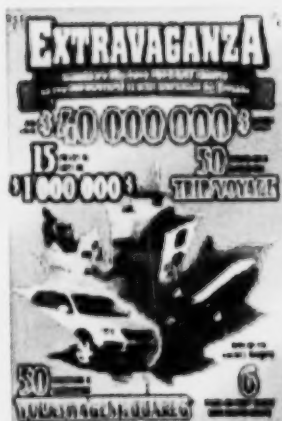
For the first time in the 29-year history of lotteries, sales declined in fiscal 2003/04. This trend is mainly due to the maturity of the product and is consistent with lottery jurisdictions across Canada. The Corporation continued with its strategic objectives to rebuild and transform the lottery business, including implementing more effective marketing techniques to reach new players and strengthening lottery brands through advertising.

BCLC and the Vancouver Canucks entered into a marketing partnership designed to increase revenue for both organizations. The first element of the partnership was a collectible Canucks Scratch & Win ticket. In the second element, the Canucks could gain from a growth in wagering on BCLC's Sports Action professional hockey games, while the third element involved a media and signage package. The amount the Canucks will derive from the agreement is dependent upon the level of marketing and media support provided by the team, and the incremental revenue generated through the Scratch & Win ticket and Sports Action hockey games by the end of the 2003/04 season.

In association with the four other regional jurisdictions under the Interprovincial Lottery Corporation, we began preparations to relaunch the nationwide Lotto 6/49 game in the first quarter of fiscal 2004/05. Lotto 6/49 will be played the same way, but will provide players with jackpots that grow larger sooner, as well as more chances to win other prizes. To make these jackpots possible, the price of a ticket will increase for the first time in the game's 22-year history. Changes to BC/49 will occur in conjunction with Lotto 6/49.

Over the years, Lotto 6/49 has contributed more than \$2 billion to the Government of British Columbia. These dollars have been used to support various public programs and services, such as Expo 86, amateur sports, and health and education initiatives.

We also partnered with three other jurisdictions to offer a nationwide Scratch & Win game, Extravaganza, billed as Canada's



Richest Instant Game with 15 top prizes of \$1 million available to be won.

Lottery technology continued to evolve. We rolled out a pilot test of new lottery terminals that will be more efficient and effective in processing transactions for retailers and players. This stage was part of preliminary work to replace the Corporation's online gaming system in the next fiscal year.

In the hospitality network, we introduced visual-display technology that shows draw information and messages with enhanced animation and dynamic graphics.

Our marketing and advertising strategies were recognized with several provincial, national and international awards. Among them, the BC Chapter of the American Marketing Association named BCLC Marketer of the Year for 2003, the highest award given by the association.



In the casino business unit, BCLC continued with our growth initiative to consolidate the casino market by establishing fewer, higher-quality properties sized to fit the marketplace.

Final host local government approval was received to establish purpose-built, full-service facilities in Richmond and Langley that will open in fiscal 2004/05. Municipal approvals were also secured to relocate or upgrade casinos in Vancouver, Prince George and Coquitlam.

The Corporation successfully introduced new interactive slot machines at selected sites and increased the slot machine complement at existing casinos in New Westminster, Nanaimo, View Royal, Kamloops, Prince George, Vernon and Coquitlam.

BCLC also received approval to introduce electronic gaming at horse racetracks. A milestone in British Columbia gaming industry was reached with the introduction of slot machines at Fraser

Downs in Cloverdale. In its first year of operation, this interim facility is projected to generate about \$42 million in revenue, including about \$2.7 million in revenue sharing for the City of Surrey and \$4.2 million that has been committed by Government to support both standardbred and thoroughbred horse racing in the province. A permanent site is expected to open in 2005.

A new Casino Management System that brings new levels of financial integrity and accountability to British Columbia casinos was introduced at individual sites. This technology replaces paper-based systems and provides automated tracking to every aspect of table games that the CasinoLink system provides to slot machine play.

During fiscal 2003/04, BCLC continued with its strategy to develop a viable bingo gaming business plan that is more profitable and sustainable for the Corporation and bingo service providers. A new business plan will reposition bingo through the consolidation of existing sites and relocating and upgrading facilities, as well as introducing new products to support business growth.

Over the year, Nanaimo's commercial bingo hall was upgraded and electronic bingo was added to commercial bingo halls in Esquimalt and Prince George.

A highlight of the year was the relocation and opening of



Enterprise Entertainment in Kamloops, a purpose-built, state-of-the-art facility with the latest in bingo technology. Every element of the facility was designed with the player in mind, with a goal to enhance the bingo experience.

We also initiated steps to develop a model for community gaming centres. Each facility will be market-sized to provide adults with a new social and entertainment experience that offers a high-quality setting and a wider variety of bingo, lottery and electronic gaming products. Communities that express interest in hosting a community gaming centre must provide an opportunity for public

input into the process.

E-business represents a major initiative for BCLC. In September, we completed an e-business proposal for lotteries, as well as new, interactive lottery games.

Our Web site, www.bclbc.ca, relaunched after a major technical, design and content upgrade, and we launched a new business-to-business extranet site for casino service providers.

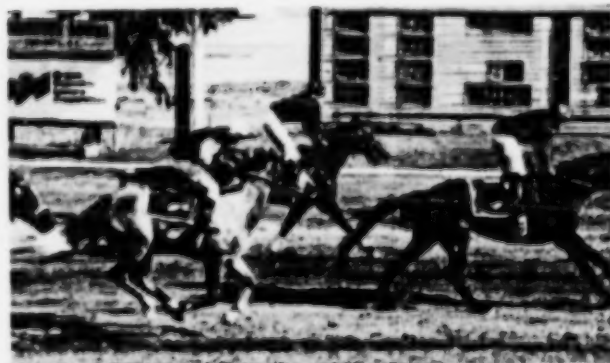
In fiscal 2004/05, we will pursue new e-business developments, including the development and implementation of business-to-business, business-to-consumer and business-to-employee initiatives.

In 2001, BCLC's responsibilities were expanded to include support of the marketplace management of horse racing in British Columbia. The Corporation is responsible for the administration of horse racing fees and the placement of electronic gaming at racetracks, subject to municipal approval.

For many years, we have provided sponsorship support to the "sport of kings" in communities around the province.

At Hastings Racecourse in Vancouver, we were a title sponsor for the 2003 thoroughbred racing season from April through October. From September through April, we partnered with Fraser Downs in Cloverdale for a fourth year of horse racing action. At Sandown Park, Keno was the sponsor for weekend live racing.

Special events included the Interior Horse Racing Festival at Sagebrush Downs in Kamloops, where we were a presenting sponsor of the event and the British Columbia Lottery Corporation Mile. Keno was the sponsor for the 58th annual B.C. Derby at Hastings Racecourse, one of the most prestigious horse racing events in Canada.



Billy Barker Casino	585 Holdings Ltd.	Quesnel	\$ 9,429,890	140	\$ 443,357	5	\$ 9,873,247	\$ 9,618,692
Casino Hollywood Supply Co. Inc.	Prince George Casino Prince George		24,952,582	240	2,248,707	9	27,201,289	24,438,941
Gateway Casino Burnaby	Gateway Casinos Inc.	Burnaby	87,023,250	300	42,827,724	33	129,850,974	104,338,171
Gateway Casino Mandarin Centre	Gateway Casinos Inc.	Vancouver			17,936,554	33	17,936,554	18,155,967
Gateway Casino Royal Towers	Gateway Casinos Inc.	New Westminster	21,769,534	169	14,183,441	24	35,952,975	33,531,029
Grand Casino	Grand Casino Equipment & Management Ltd.	Vancouver	—	—	23,158,497	32	23,158,497	20,995,602
Great Canadian Casino Coquitlam	Great Canadian Casinos Inc.	Coquitlam	80,979,422	450	37,480,404	32	118,459,826	89,229,023
Great Canadian Casino Holiday Inn	Great Canadian Casinos Inc.	Vancouver	—	—	31,969,533	38	31,969,533	30,606,016
Great Canadian Casino Nanaimo	Great Canadian Casinos Inc.	Nanaimo	37,699,119	380	4,622,841	12	42,321,960	39,039,383
Great Canadian Casino Renaissance	Great Canadian Casinos Inc.	Vancouver	—	—	7,690,853	24	7,690,853	11,664,714
Great Canadian Casino Richmond	Great Canadian Casinos Inc.	Richmond	—	—	56,279,467	36	56,279,467	44,810,593
Great Canadian Casino View Royal	Great Canadian Casinos Inc.	View Royal	50,396,345	436	9,714,780	24	60,111,125	51,986,583
Lake City Casino Kamloops	Lake City Casinos Limited	Kamloops	27,637,731	304	2,490,680	8	30,128,411	25,726,483
Lake City Casino Kelowna	Lake City Casinos Limited	Kelowna	33,621,343	311	4,261,443	12	37,882,786	33,311,777
Lake City Casino Vernon	Lake City Casinos Limited	Vernon	22,661,493	210	1,162,248	8	23,823,741	20,331,223
Royal Diamond Casino	Royal Diamond Casinos Inc.	Vancouver			—		—	
			\$396,170,709	2,940	\$256,470,529	330	\$ 652,641,238	\$557,784,197

Lake City Casino Penticton	Lake City Casinos Limited	Penticton	18,796,768	224	1,228,743	10	20,025,511	18,525,033
Royal City Star Casino	Star of Fortune Gaming Management (BC) Corp.	New Westminster	37,946,093	352	11,232,296	23	49,178,389	46,391,544
Casino of the Rockies	Lake City Casinos Limited	Cranbrook	10,388,577	236	992,675	10	11,381,252	5,110,654
Jack o' Clubs	Jack o' Clubs Gaming Hall Ltd.	Wells	245,333	80	13,949	4	259,282	312,118
			\$ 67,376,771	892	\$ 13,467,663	47	\$ 80,844,434	\$ 70,339,349
			\$463,547,480	3,832	\$269,938,192	377	\$ 733,485,672	\$628,123,546

Notes

Royal Diamond Casino closed due to a labour disruption July 15, 2001

711 Bingo Emporium	City Bingo Association	Victoria	0	0	663,000
Abbotsford Bingo	Abbotsford Bingo Association	Abbotsford	604	8,951,000	7,490,000
Bear Mountain Bingo Hall	Vetter Management Service Ltd.	Dawson Creek	350	1,570,000	1,601,000
Bingo Bingo Esquimalt	319968 BC Ltd. (DBA Bingo Bingo Esquimalt)	Victoria	200	3,317,000	3,543,000
Bingo City	Bingo City Games Inc.	Prince George	0	0	2,310,000
Bingo Kelowna	Goldwing Investments (Saskatoon) Ltd.	Kelowna	780	13,219,000	11,926,000
Burnaby Bingo Country	427967 BC Ltd. (DBA Bingo Country)	Burnaby	440	7,889,000	7,441,000
Campbell River Bingo Palace	Playtime Community Gaming Centres Inc.	Campbell River	310	6,882,000	7,229,000
Chilliwack Bingo	Chilliwack Bingo Association	Sardis	484	11,901,000	12,168,000
Cordial Bingo Hall	Cordial Bingo Association	Vancouver	522	239,000	541,000
Dob City	Alberni Valley Bingo Association	Port Alberni	336	2,800,000	2,918,000
Enterprise Entertainment (formerly Buck Bingo Hall)	Enterprise Entertainment Ltd. (formerly Buck Inc.)	Kamloops	712	10,568,000	9,913,000
Fairweather Bingo Hall	Termin Properties Ltd.	Vernon	525	5,625,000	5,841,000
Good Time Bingo Hall	Good Time Bingo Hall Inc.	Prince George	730	14,442,000	11,474,000
Honey Bingo Plex	Ridge Meadows Bingo Operators Society	Maple Ridge	500	8,692,000	7,870,000
Harbour City Bingo Hall	Harbour City Bingo Society	Nanaimo	500	6,962,000	7,237,000
Inkspot Bingo	Duncan Dabber Bingo Society	Duncan	625	4,410,000	4,812,000
Langford Drop-In Bingo	Playtime Community Gaming Centres Inc.	Victoria	255	1,910,000	1,864,000
Langley Bingo Palace	Playtime Community Gaming Centres Inc.	Langley	717	9,603,000	9,458,000
Lucky Dollar Bingo Palace	Lucky Dollar Bingo Management Ltd.	Terrace	300	5,530,000	5,554,000
Lucky's - The Bingo Centre	Lucky's Ventures Ltd.	Williams Lake	400	4,032,000	3,914,000
Mission Bingo Country (formerly Mission Bingo Association)	Mission Bingo Country (formerly Mission Bingo Association)	Mission	210	724,000	809,000
Newton Square Bingo Country	427967 BC LTD. (DBA Bingo Country)	Surrey	680	16,312,000	17,468,000
Nordley's Bingo Hall	Bute Street Bingo Association	Port Alberni	114	1,183,000	1,175,000
North Star Bingo Hall	Astel Canada Holdings Ltd.	Fort Nelson	155	1,063,000	835,000
Penticton Bingo Palace	Playtime Community Gaming Centres Inc.	Penticton	420	4,406,000	4,561,000
Planet Bingo	Mount Pleasant Starship Community Charitable Association	Vancouver	800	17,199,000	17,148,000
Play It Again Bingo	Yarwood Enterprises Ltd.	Kamloops	0	0	1,680,000
Playtime Bingo (Nanaimo)	Playtime Community Gaming Centres Inc.	Nanaimo	460	5,781,000	4,984,000
Playtime Bingo (Victoria)	Playtime Community Gaming Centres Inc.	Victoria	470	4,671,000	3,548,000
Quesnel Bingo Hall (2 Rivers)	Astel Canada Holdings Ltd.	Quesnel	182	889,000	804,000
Rainbow Bingo Hall	243045 Alberta Ltd.	Fort St. John	310	3,620,000	3,679,000
River City Bingo	River City Bingo Association	Powell River	250	1,031,000	1,043,000
Rocky Mountain Bingo	Termin Properties Ltd.	Cranbrook	400	2,624,000	3,200,000
Totem Bingo Palace	Prince Rupert Bingo Association	Prince Rupert	240	2,185,000	2,546,000
Tri-City Bingo Palace	Playtime Community Gaming Centres Inc.	Port Moody	0	0	365,000
Valley Entertainment Palace	Playtime Community Gaming Centres Inc.	Courtenay	312	3,695,000	3,768,000
				0	0
			14,293	\$ 193,926,000	\$ 193,384,000
				0	0
Independent Bingo Hall SuperStar Sales				\$ 1,477,000	\$ 1,953,000
				0	0
Paper Bingo Distribution Revenue				\$ 318,000	\$ 341,000
				\$ 195,721,000	\$ 195,678,000

Commercial Halls offering Handheld Bingo 25
Commercial Halls offering Starship Bingo (Personal Play) 17
Cordial Hall - Closed January 31, 2004

Commercial Halls offering Starship Bingo 20
Commercial Halls offering SuperStar Gold Bingo 32

Commercial Halls offering Paper Bingo 32
Commercial Halls offering Gecko 1



t BCLC, we focus on our players. New and exciting products, new and improved facilities, and new ideas in added entertainment value keep gaming entertainment attractive and exciting for players.

During fiscal 2003/04, we continued to revitalize bingo gaming in British Columbia by upgrading and relocating existing halls, enhancing service, adding product options and holding consumer promotions.

Enterprise Entertainment in Kamloops opened with the newest technology in bingo entertainment. The facility is the first in the world to offer Gecko Xtra, a state-of-the-art, touch screen electronic bingo system developed in a partnership between BCLC and SGC. Gecko Xtra is a full-colour, full-motion, graphics and sound gaming experience designed to replicate paper-based bingo.

Players also enjoy comfortable seating options, a restaurant and a climate-controlled environment. A variety of events took place over the grand opening weekend, including a gala where 700 players had fun competing for more than \$50,000 in cash and prizes.

Starship Bingo joined the bingo entertainment lineup at Prince George Good Time Bingo. In Esquimalt, Bingo Bingo underwent extensive renovations and reopened with new food services, more player space and increased parking. The facility became the 21st site to offer Starship Bingo.

In November, the annual B.C. Bingo Championships, hosted by BCLC and the bingo industry, took place at Kelowna Bingo Palace. Players across the province had a chance to win a seat at the championships through special qualifier games held at participating halls.

Seventy-five finalists competed for cash and prizes, and the winner of the final game drove home to Cranbrook in a new car.

Lottery enthusiasts and Vancouver Canucks fans responded to a new marketing partnership between BCLC and the Canucks organization. The first element, a new \$10 Scratch & Win ticket, featured eight players in a collectible series.

BCLC shipped 400,000 tickets to lottery retailers around British Columbia, then swiftly followed up with another printing of 200,000 to meet consumer demand.

Consumers who purchased a ticket had the chance to win Trevor Linden's 2004 Chevrolet TrailBlazer[®] in a bonus Internet contest. Nearly 316,000 entries were received. Trevor Linden handed the keys to a

Port Alberni resident during a special presentation at General Motors Place.

Living Large Lottery returned for a second year, offering prizes ranging from a free ticket to \$100,000 a year for 25 years (or a \$1.5 million lump sum).

Several promotional events took place around the ticket, including a bonus Internet contest for the chance to win a home theatre system. Entries nearly doubled over the previous year to 249,000. The prize was won by a Shawnigan Lake resident.

Players who purchased \$10 worth of Keno or Keno with Keno Bonus could enter a consumer promotion for a 2003 Dodge Viper. Ten finalists were drawn from the 260,000 mail-in entries received.

During a live event on City TV, each finalist attempted to unlock the Viper with a randomly drawn key fob. The tenth and final contestant, a Surrey resident, was successful.

Offering a wide variety of slot machine games is one way British Columbia casinos keep competitive with neighbouring jurisdictions.

BCLC responded to player interest by installing new interactive slot machines, which use touch screen technology, in casinos throughout the province. These new slot machines feature monitor screens instead of the traditional reels. Many are multi-denominational, so players can choose a wagering amount.

In partnership with casino service providers, BCLC held a Quest for Treasure promotion for the chance to win cash and a Las Vegas vacation at each participating casino. Players won thousands of dollars daily during "hot seat" times and a game show.

Royal City Star was the site of the Cruise 'n' Cash Showdown Finale. Thirteen finalists selected to represent their local casino participated in a fun-filled prize weekend. Three grand prize winners unlocked vaults to discover either a vehicle, \$10,000 cash or a luxury cruise.

During a Mardi Gras promotion, participating full-service casinos offered a chance to win a \$10,000 prize at each location. Six winners received additional cash for being present during draw time.

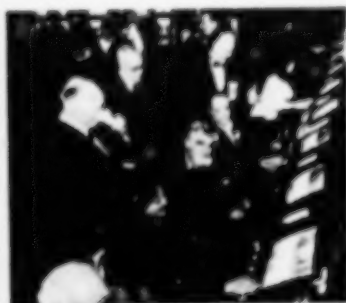


Each year, through an independent research company, BCLC surveys adults in British Columbia about their attitudes toward gaming and their enjoyment of the games.

Information is also collected about people's participation in lottery gaming, casino gaming or bingo gaming during the past year.

The characteristics of our lottery, casino and bingo players can be compared against the key general characteristics of adult British Columbians, as follows.

- 52% are female and 48% are male
- 27% are 19-34 years old, while 73% are over the age of 35
- 71% have some post-secondary education
- 53% are from households with an annual income under \$60,000
- 47% are from households with an annual income greater than \$60,000



Lottery Players

- 8 out of 10 adult British Columbians have played a lottery product, such as Lotto 6/49, Scratch & Win or Keno, in the past year
- 52% are female and 48% are male
- 73% are over the age of 35
- 69% have some post-secondary education
- 47% are from households with an annual income greater than \$60,000

Casino Players

- 3 out of 10 adult British Columbians have visited a casino in British Columbia in the past year
- 51% are male and 49% are female
- 70% are over the age of 35
- 66% have some post-secondary education
- 47% are from households with an annual income greater than \$60,000

Bingo Players

- 6% of adult British Columbians have visited a commercial bingo hall in British Columbia in the past year
- 75% are female and 25% are male
- 70% are over the age of 35
- 58% have some post-secondary education
- 35% are from households with an annual income greater than \$60,000



Smiles appeared throughout British Columbia in fiscal 2003/04 as people tried a variety of games for fun, entertainment and the chance to dream.

Lottery and bingo winners collected \$645 million in prizes,

including 18 prizes of \$1 million or more. More than 76 million prizes were won over the year.

Hazel Sundby of Radium Hot Springs claimed \$10 million, BCLC's highest Lotto 6/49 prize of the year. Hazel, who said she had a premonition that she would win the lottery one day, waited almost two weeks to claim her prize so she could digest the idea of becoming a millionaire 10 times over.

Two prize claims of \$10 million each were BCLC's highest Lotto Super 7 prizes of the year.



Daniel Tidball and his wife, Noriko, of Vancouver were in disbelief over their win and planned to leave the money in the bank for the meantime. Noriko said she only buys tickets when she is feeling lucky,

and she had a good feeling about buying a ticket for the \$30 million jackpot. Two other winning tickets were purchased in Ontario and Western Canada.

Vancouver resident Dario Sestito said he felt like he was in a dream when he checked the numbers on his ticket and discovered his \$10 million win. He purchases his tickets every week with his morning coffee and newspaper.

Dario had no immediate plans to quit his job, but thought he might take some time off.

A last-minute decision to buy Lotto Super 7 tickets as a group turned into \$7.5 million and \$750,000 each for 10 co-workers at a neon sign manufacturer in Port Moody. Their plans included paying off mortgages, paying bills, taking trips and buying new vehicles.

Thirty-four co-workers, the entire staff of a bank in Surrey, shared a \$500,000 prize on Lotto Super 7 Extra. They have purchased tickets regularly for four years.

Canucks fan Elizabeth Densky was thrilled when she saw the new Canucks Scratch & Win ticket at her lottery retailer. The Vancouver resident chose her favourite player, Trevor Linden, from the collectible series and became the game's first grand prize winner of \$100,000.



Elizabeth said she could now buy a new, flat-screen television to watch all the games.

Two Vancouver Island men won the biggest Sports Action Toto prize in BCLC history. Brant Cathcart of Victoria and George Fritz



of Lantzville won \$89,311.60 playing American football. The longtime friends and business partners have been playing Sports Action Toto together for several years.



Terry Morrissey of Langley also made BCLC history when he won \$150,000 on Keno, the largest single-ticket Keno prize ever claimed. Terry purchased his ticket and found out five minutes later that he was a winner.

Terry said "yes" to the Keno Bonus, which tripled his \$50,000 prize. He planned to invest and take a trip.

Rosemary Hirner of North Vancouver became a millionaire on Extravaganza, a Scratch & Win ticket distributed across Canada, except Quebec. The attractive appearance of the ticket prompted her purchase.

Rosemary's husband scratched the ticket and told her he found three \$1 million symbols, but at first she did not believe him. She was going to take her time to decide what to do with her winnings.

Kelowna resident Jan Jeckel screamed "bingo" and claimed the SuperStar Gold Bingo progressive jackpot of \$87,638,664, the highest prize of the year.

Jan said she could not believe how much she had won and had to ask for confirmation over and over again. She planned to buy a brand new car immediately.



Casinos of British Columbia



BINGO

Lottery retailers and casino and bingo service provider companies contribute to the overall success of BCLC and the benefits generated for British Columbians. BCLC continually strives to build on relationships and opportunities with our private sector business partners.

In addition to our partnerships with our gaming service providers, we maintain strong partnerships with a variety of businesses in the private sector. Of the Corporation's total operating and capital expenditures in fiscal 2003/04, we paid \$115 million to private sector suppliers. This represents about 75% of expenditures in this category.

The Corporation sells lottery products by contractual agreement at retail locations throughout British Columbia. About 3,300 retailers make up the Retail Network, which includes businesses ranging from small family corner stores to newsstands to large corporate chains. The 1,200 retailers in the Hospitality Network are largely licensed premises, such as pubs, service clubs and cold beer and wine stores.

Lottery products must compete against an array of choices in the entertainment marketplace, and BCLC retailers act as front line ambassadors for our games. Retailers receive an industry-standard commission on every lottery product sold and can increase their earnings through bonus programs that encourage product knowledge and exceptional customer service.

In fiscal 2003/04, lottery retailers earned \$65 million in sales commissions and incentive earnings.

BCLC provides marketing, sales and training support through our territory sales managers in the field, Hotline call centre operators,

Tel-Sell ticket sales representatives and customer trainers. We provide tools and techniques for consumer promotions and retailer and staff incentives, as well as point-of-sale materials and monthly newsletters.

Several times a year, BCLC meets with our Retail Network and Hospitality Network Councils to discuss upcoming programs and initiatives and exchange information about the retail and

hospitality industries. Council members represent a cross-section of both networks.

BCLC operates community and destination casinos through a partnership with private sector companies. These companies provide day-to-day facility and operational services in compliance with the Corporation's responsibilities to conduct and manage gaming.

At fiscal year-end, we had contracted with eight service provider companies for 19 casinos and one horse racetrack

gaming centre where slot machines are available.

Key functions delivered by service companies include staffing for table game play, cash management, routine slot machine service and security, customer service and amenities, promotions and events, and renovations and furnishings.

From net win, after prizes, these service companies receive fees of 40% on table games and 25% on slot machines. Operating costs are covered through these service fees. An additional 3% of net win is available for facility development.

Service providers earned \$252 million in service fees in fiscal 2003/04, from which all of their facility and operating costs are paid.

Service providers and gaming industry employees are required to register with the Gaming Policy and Enforcement Branch (GPEB). Service providers are obligated to report to GPEB any known or



suspected conduct or activity at or near a gaming facility that may be contrary to the Criminal Code and provincial gaming statute and regulations.

BCLC holds quarterly meetings with service provider companies to review marketing opportunities and operational topics. We work co-operatively with our partners and host local governments on proposals and plans for relocated and new gaming facilities within communities.

The Corporation also exercises partnerships with bingo service provider companies. In 2001/02, the management structure for bingo in British Columbia changed when BCLC assumed responsibility to conduct and manage bingo at commercial halls. Charitable and community organizations were no longer responsible to conduct and manage paper bingo.

The Corporation entered into agreements with bingo service provider companies for facility and operational services. Some charitable organizations exercised their option to act as bingo service providers and continue to operate commercial bingo facilities on behalf of their member charities.

Bingo service providers are paid a service fee based on a gross monthly sales formula. In fiscal 2003/04, service providers earned \$39.5 million, from which all of their facility and operating costs are paid.

Charitable and community organizations continue to be directly involved in commercial bingo through certificates of affiliation that establish individual groups as the beneficiaries of profits from a designated bingo hall. In fiscal 2003/04, GPEB distributed \$55.5 million in government gaming grants to about 1,970 affiliated organizations.

BCLC regional managers work in the field to provide support to bingo service providers. In addition, we host group meetings to review marketing plans, budgets, operational issues and business opportunities. In November, the first annual bingo service provider's forum included roundtable discussions and learning workshops.

On a daily basis, customer support staff in our bingo call centre are available to assist all commercial and independent facilities that offer BCLC bingo products.



CLC has changed significantly over the years since 1985, when the Corporation was given authority to conduct and manage lottery gaming in British

Columbia.

In recent years, our responsibilities have grown to include casino and commercial bingo gaming, resulting in a doubling of our revenues and increasing the complexity and demands on our organization.

The dedication and commitment of our employees is a prime component in BCLC's success. Our workforce of 560 provides direction, services and support to our corporate, lottery, casino and bingo divisions and our business partners throughout British Columbia.

Our employees take pride in their contributions to generate benefits for the people of the province. Every employee plays a role in ensuring our games are conducted with the highest standards of integrity and fairness and offered in a socially responsible manner. Customer service is a cornerstone in all aspects of our business, both within the workplace and in the marketplace.

Changes for the Corporation have meant changes for our people. New and increased responsibilities brought about a journey of change, and this journey must continue as we build an even stronger organization that can better compete in an ever-changing and challenging marketplace.

In fiscal 2002/03, BCLC began a process of organizational change toward a higher performance culture. As a result of learning forums with our employees, a cross-functional team was mandated to look at opportunities, strategies and solutions. The team's work continued to develop in fiscal 2003/04 in the key areas of players, people, growth and corporate social responsibility.

While several initiatives and practices have been implemented,



over the next fiscal year we will continue to pursue our vision of high performance through strong leadership, employee development and engagement, and competitive compensation policies.

Our employees have already reached high levels of community service as citizens of BCLC. During the wildfires of summer 2003 and the provincial state of emergency, our employees provided support to the relief effort by answering thousands of calls to the toll-free information lines at the Provincial Regional Emergency Operations Centre in Kamloops.

At the Evacuation Centre in Kamloops, area residents found care and comfort at the BCLC tent. Colleagues supported each other by taking on extra duties at the office to ensure that the business of BCLC continued to run.

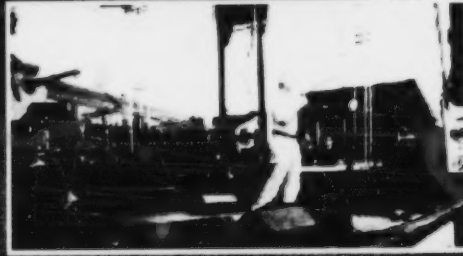
We are extremely proud of our employees' contributions and their willingness to do whatever needed to be done. Among us were those who also faced personal hardships and losses.

Within our workplace, fund-raising efforts continue year-round for United Way, Christmas giving and various not-for-profit organizations. Creative activities not only raise thousands of dollars for worthy causes, but bring employees together in a common spirit of goodwill and friendship.

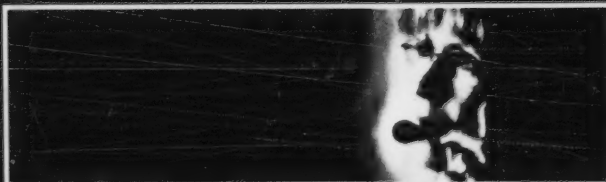
In conjunction with two of our corporate sponsorships in Kamloops, our Green Committee members rolled up their sleeves. They cleaned up our neighbourhood for community Trash Bash, and they also made sure the downtown area was tidy prior to the judging of the Communities in Bloom contest.

Our employees believe in giving back to the communities in which they live, work and play. In addition to their BCLC activities, they share their skills and abilities through their personal volunteer work.





We are extremely proud of our employees' contributions and their willingness to do whatever needed to be done. Among us were those who also faced personal hardships and losses.



throughout British Columbia, the BCLC banner proudly flies at conferences, celebrations, festivals and fund-raisers that showcase and enrich our communities. Corporate and product sponsorships are one of the ways we partner with communities, municipalities and not-for-profit groups to support a cross-section of events in the areas of business, arts and culture, and sports and recreation.

In particular, the Corporation salutes the forces of volunteers whose spirit and commitment makes so many of these events possible.

A highlight of fiscal 2003/04 was the bid that successfully brought the 2010 Olympic and Paralympic Winter Games to Vancouver and Whistler. In 2001, BCLC became the second founding supporter of the bid by committing \$1.5 million in a combination of cash and in-kind sponsorship over three years. Through the TEAM 2010 Volunteer Program, we led the supporter and volunteer recruitment drives around the province.

Just prior to decision day July 2, 2003, we joined with the Vancouver 2010 Bid Corporation to present a Push to Prague volunteer recognition event. By that time, the online supporter count had reached 118,000 and 47,000 people had expressed a desire to volunteer for the Games. When British Columbians gathered for the Countdown to 2010 Celebration on July 5 in Vancouver, BCLC hosts were on hand singing up more volunteers.

After this summer's devastating wildfires, we reached out to help



It's our winning number.

For the province of British Columbia, the winning number was 2010. The province's bid to host the 2010 Winter Olympic and Paralympic Games was successful. The province's bid was the second highest in the world.



LET THE GAMES BEGIN.

The 2010 Winter Olympic and Paralympic Games will be held in Vancouver and Whistler, British Columbia. The province's bid was the second highest in the world. The province's bid was successful.

Presented by the British Columbia Lottery Corporation. In partnership with the Province of British Columbia. The 2010 Winter Olympic and Paralympic Games will be held in Vancouver and Whistler, British Columbia.

lift spirits and rebuild communities by becoming a presenting sponsor of the Fire on the Mountain benefit concert in Kamloops. Organized by Canadian Pacific Railway, music producer Randall Prescott and the City of Kamloops, the multi-regional event attracted a roster of Canadian talent and 30,000 spectators.

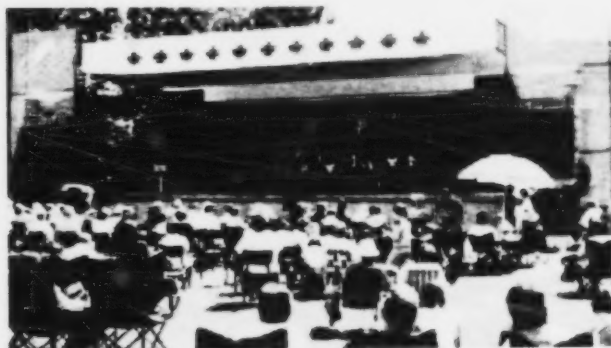
About 200 volunteers gave their help to the relief effort, and BCLC employees co-ordinated and staffed the volunteer centre over the course of the day. A total of \$84,000 was raised and shared with organizations in Kamloops and the North Thompson, Kelowna and area, and the Kootenays. Weeks later, the Corporation participated as sponsor in Celebrate Kelowna!, a parade and civic ceremony recognizing the community's efforts during the wildfire crisis.

There were many other reasons to celebrate over the year. BCLC again showed its support for Canada Day at events in Vancouver, Langley, Surrey and Kamloops. At Celebrate BC, an inaugural

B.C. Day festival and exposition at the Plaza of Nations, the BC Lottery Multicultural Stage featured ethnic singing and dancing performances.

Community service projects in Kamloops benefited from the money raised by the Rotary Invitational Golf Classic. BCLC and our casino service provider Lake City Casinos were Presenting Sponsors for

this sixth annual event. In Cranbrook, we joined with Lake City Casino for the Sam Steele Days community celebration. BCLC and Royal City Star casino helped decorate the sky by presenting two nights of fireworks at Fraserfest in New Westminster.





Our summer-long support of the City of Kamloops' Music in the Park free concert series concluded on a high note when a record crowd attended a special benefit performance for the Kamloops Food Bank. Generous donations helped the food bank's supplies, which had been strained by the wildfire crisis. In Penticton, volunteers sported the BCLC logo on their shirts at the Pentastic Jazz Festival.



The Business Improvement Associations of B.C., Union of British Columbia Municipalities, Local Government Management Association and British Columbia Association for Charitable Gaming, as well as municipal associations, chambers of commerce and professional associations across the province, received support for their conferences and initiatives.

Sports Action teamed up with the Canada Cup Women's Fastpitch Tournament in Surrey, Steamworks Tour de Gastown in Vancouver and the BC Lions football season. Keno provided lottery

sponsorship for the Cloverdale Rodeo in Surrey and Merritt Mountain Music Festival.

At the Molson Indy in Vancouver, racing fans dropped by the Keno Zone hospitality area where two full-service booths were available. A 2003 Dodge Viper, a prize in a Keno consumer promotion, was on display and admired by many.



Over the winter season, BCLC was among sponsors of the annual Wildlights at the British Columbia Wildlife Park in Kamloops. More than 25,000

visitors took in the festive light display and other activities during the five-week event.

BCLC looks forward to our continuing role as an active participant in communities throughout the province.



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ocial responsibility is one of BCLC's core values. We ensure that everything is done with consideration of its impact on the people and communities of British Columbia. Therefore, our objective of revenue generation for Government must be carefully balanced with our objectives of gaming integrity and social responsibility.

Gambling can result in problems that may affect family, finances, employment or self-esteem. Addressing problem gambling effectively requires a shared responsibility approach. Individuals, gaming providers and Government policy and regulation all contribute to maintaining gambling as a safe and healthy entertainment choice for adults.

Problem gambling issues are best approached through awareness, education, prevention and treatment programs. BCLC plays a strong leadership role in promoting responsible play practices and ensuring that an appropriate problem gambling risk management strategy and programs are in place.

The British Columbia Partnership for Responsible Gambling

() is a strategic alliance developed to promote responsible gambling. BCLC is represented in this partnership with the Government of British Columbia and our private sector casino and bingo service provider companies:

In 2003, Government released a prevalence study on problem gambling, the third such study commissioned in British Columbia over the past decade. The study concluded that the prevalence of problem gambling has remained virtually the same since the first study in 1993 and is consistent with research data from other provinces.

The study reconfirmed that among adults who choose to participate in gambling, more than 95% play responsibly. It also found that fewer British Columbians are gambling now than in the mid-1990s, even though there are more opportunities.

However, the study also showed that about 4.2% of British Columbians are moderate problem gamblers. At 0.4%, the percentage of severe problem gamblers is the lowest in Canada.

BCLC provides support to agencies involved in education, prevention and treatment services. Among key activities in the fiscal year, we contributed our knowledge and expertise to the 12th International Conference on Gambling and Risk-Taking, presented by the University of Nevada Institute for the Study of Gambling and Commercial Gaming. This year's conference was hosted in Vancouver.

On the national stage, BCLC is a founding member of the Canadian Partnership for Responsible Gambling, a collaboration of non-profit organizations, gaming providers, researchers and regulators working to find and promote effective ways to reduce the risk of problem gambling. The

Partnership's objective is to promote better understanding and implementation of responsible gambling programs through joint research, issue analysis and information sharing.

In the British Columbia marketplace, the Corporation and our lottery retailers and bingo and casino service providers promote good customer service, as well as programs designed to reduce risks and increase awareness that help is available.

Among our social responsibility practices, we ensure that:

- Games are operated with a high degree of security and integrity.
- The right prizes are paid to rightful winners.
- Audited financial statements are published annually.
- There is wide public distribution of information about problem gambling and the help that is available for those experiencing problems.
- Product information includes the odds of winning and losing.
- Laws concerning the legal age to participate in gaming in British Columbia are upheld and extensively publicized through a 19+ program.
- A self-exclusion program is in place for casinos and commercial bingo halls.

During fiscal 2003/04, BCLC developed an Appropriate Response Training program for the gaming industry so that employees will have a consistent and clear understanding of issues and know how to respond to difficult situations involving customers.

Training will start in early fiscal 2004/05 for casino employees. They will gain a better understanding of their role in delivering gaming products and an appropriate level of customer service, while respecting an adult's right to choose gaming as an entertainment option.



Near fiscal year-end, the Corporation adopted a new responsible play message, "Know Your Limit, Play Within It." This message will be included in our product and marketing materials, as well as in other vehicles and initiatives.

From BCLC's fiscal 2003/04 net income, \$4 million was dedicated to Government's Problem Gambling Program. This funding is managed by the Ministry of Public Safety and Solicitor General through the Gaming Policy and Enforcement Branch.

Since the program's inception in 1997, more than 600 addictions counsellors and allied professionals have received training in problem gambling issues.

The program's toll-free Problem Gambling Help Line (1-888-795-6111) is a 24-hour resource where callers can get information and referrals to community-based counselling, telephone clinical counselling and other services throughout British Columbia.

Problem Gambling Help Line

1-888-795-6111



All BCLC products carry the Help Line number. Brochures, stickers and posters about BCLC games, the Problem Gambling Program and Help Line have been widely distributed to casinos and commercial bingo facilities, lottery outlets and a variety of health and social service agencies.

Our self-exclusion program allows individuals to voluntarily exclude themselves from casinos or commercial bingo halls for a period of six months, one, two or three years and cannot be revoked. An individual who enlists in the voluntary self-exclusion program is also offered an option to be referred to a problem gambling counsellor for help.

BCLC will remain committed to promoting social responsibility and responsible play practices and ensuring that the information required for individuals to make informed choices is readily available.



British Columbia's gaming industry is operated and regulated under the authority and direction of the Minister responsible for gaming, the Minister of Public Safety and Solicitor General.

BCLC, as an agent of the Crown, has responsibility to conduct, manage and operate lottery, casino and commercial bingo gaming and to manage the horse racing marketplace in British Columbia. The Corporation's Board of Directors is appointed by order of the Lieutenant-Governor in Council. Board members have been appointed at various times since September 2001.

The Gaming Policy and Enforcement Branch (GPEB) regulates all aspects of the gaming industry in British Columbia. The branch develops and manages gaming policy, legislation and standards, licenses charitable gaming events and horse racing, registers gaming service providers and gaming workers, certifies gaming equipment, and investigates allegations of wrongdoing in all gaming sectors.

GPEB conducts charitable and commercial audits to ensure compliance, and manages distribution of Government's gaming proceeds, including gaming grants to charitable and community organizations. The branch administers Government's Problem Gambling Program and ensures that policies and standards are in place to help minimize the harm from gambling and promote responsible gambling practices.

For many years, BCCLC has had governance practices in place to guide the Board of Directors and the Corporation by setting out the lines of authority, roles and responsibilities of the Chair, Directors and committees, and a conflict of interest policy.

The Government of British Columbia recently established a governance framework that defines guiding principles for Crown corporations. This governance framework identifies the roles and responsibilities between Government and Crown corporations and provides for a Shareholder's Letter of Expectation to confirm the shared understanding of Government and BCCLC on its corporate mandate, public policy issues, strategic priorities and performance expectations.

The current Board has undertaken an extensive review of the Corporation's existing governance practices, with the goal of adopting well established best practices in corporate governance, as well as ensuring the Corporation's practices were aligned with the governance framework for Crown corporations.

In 2005, a new governance framework was adopted by the Corporation. The new framework reflects the Corporation's mandate, vision, mission and strategic goals and includes updated terms of reference for the Board, Chair, Directors and committees of the Board. The new framework also includes operating guidelines for the Board and its committees and sets out processes for Board performance evaluations, strategic planning and succession planning.

The Board continuously reviews and evaluates the Corporation's governance framework with a view to maintaining good corporate governance practices that are aligned with the Corporation's business and consistent with Government's guiding principles for corporate governance in Crown corporations.

As part of its governance practices, the Board regularly evaluates its own performance with the objective of continuously improving performance and performing its oversight role in the most efficient and effective manner.

The Board provides stewardship and ethical leadership by overseeing management of the Corporation's affairs with a view to the best interests of the Corporation and the long-term interests of the shareholder, the Government of British Columbia.

The Board has a primary responsibility to foster the Corporation's short- and long-term success, to oversee the conduct of the Corporation's business, and to supervise management who are responsible for the day-to-day operations.

Through the strategic planning process and the operation of committees, the Board reviews the principle risks facing the Corporation to ensure that strategies are implemented to manage such risks.

In carrying out the mandate of the Board, each director is required to act in accordance with a fiduciary duty, duty of care and conflict of interest duty.

The Chair is the presiding director and is responsible for the leadership and effective performance of the Board. The Chair is appointed by the Lieutenant-Governor in Council and is the liaison between the Board and the Minister responsible for BCCLC.

Audit

- Liaises between the external and internal auditors and the Board
- Oversees the review of the Corporation's financial operation by the external auditors and makes recommendations to the Board with respect to approval of audited financial statements and quarterly results
- Reviews the financial information that will be provided to Government and the public
- Assists the Board in fulfilling its oversight responsibility by overseeing the review of the Corporation's financial reporting, information systems, risk management and internal controls

Governance and Corporate Social Responsibility

- Provides focus on corporate governance to enhance BCLC's performance
- Reviews the policies and practices of the Board and makes recommendations regarding Board effectiveness
- Ensures the Board's continuing ability to fulfil its legislative mandate
- Examines and makes recommendations regarding good corporate governance practices throughout the Corporation
- Establishes and leads the process for developing potential Director criteria
- Oversees BCLC's social responsibility policy

Human Resources and Compensation

- Examines the Corporation's strategies and practices that relate to human resource and compensation matters and succession planning issues, and provides advice on these matters to the Board for consideration
- Reports to the Board as a whole with respect to compliance with current government directives and initiatives, including the Public Sector Employers' Council and the Crown Corporation Employers' Association

Marketing and Sponsorship

- Provides support to the Board during the strategic planning process with respect to the marketing components of the strategic plan
- Reviews the overall marketing and sponsorships strategies and guidelines that will govern the Corporation's role on brands, business unit and sponsorships
- Monitors the Corporation's performance against the marketing strategies and guidelines

Ex-officio members of all committees:

Record
revenues and net income for
the 29th consecutive year

Revenues
of \$1.4 billion were
under budget by \$10 million, but exceeded the
previous fiscal year by \$97 million

Direct
expenses of \$1.0 billion were under
budget by \$7.9 million, but exceeded the
previous fiscal year by \$27.9 million

Total
operating expenses \$147 million
were under budget by \$5.1 million, but exceeded the
previous fiscal year by \$12.6 million

Ratio of
administrative expenses to sales of
4.8% was on budget

Net
income of \$27.7 million exceeded budget
by \$2.7 million and exceeded the previous fiscal year by \$56.7 million

Sales:							
Lottery	\$907.2	\$937.0	\$962.7	\$968.6	\$960.4	\$990.0	(\$29.6)
Casino	445.2	492.3	552.4	628.1	733.5	725.0	8.5
Bingo	49.1	53.7	92.3	195.7	195.7	185.0	10.7
	1,401.5	1,483.0	1,607.4	1,792.4	1,889.6	\$1,900.0	(\$10.4)
Direct Expenses	745.9	796.1	863.5	987.1	1,015.0	1,022.9	7.9
Operating Expenses	123.6	124.9	137.8	134.4	147.0	152.1	5.1
Net Income	\$532.0	\$562.0	\$606.1	\$670.9	\$727.6	\$725.0	\$2.6
Profit Margin	38.0%	37.9%	37.7%	37.4%	38.5%	38.2%	.3%
Capital							
Expenditures	10.2	13.4	20.2	29.6	50.0	52.0	2.0
FTE	598	615	615	549	560	560	0

For the 29th consecutive year, BCLC achieved record sales and profit. The replacement of existing slot machines with 1,200 new technology interactive games, the addition of 350 new lottery accounts and two new electronic bingo sites all contributed to continuing growth in sales and profit.

Fiscal 2003/04 sales of \$1.9 billion were under budget by \$10.4 million, but exceeded previous year sales by \$97.2 million. While lottery sales did not achieve budgeted targets, reflecting a trend that is being experienced across Canada, sales in both the casino and bingo divisions exceeded budget.

Direct expenses of \$1.0 billion were under budget by \$7.9 million but exceeded the previous year by \$27.9 million. The positive variance from budget is the result of lower than planned sales and a shift in product mix to lower cost games. The increase in direct costs over fiscal 2002/03 is the result of additional prizes and operator commissions to support higher sales.

Total operating costs of \$147.0 million were \$5.1 million less than budget, but \$12.6 million greater than last year. Positive variances in amortization reflecting lower than budgeted capital expenditures for the lottery and casino division were partially offset by a reduction in interest income. The increase in operating costs over fiscal 2003/04 is the result of additional expenditures to support the growth in the business, primarily in the areas of advertising, marketing, salaries and amortization.

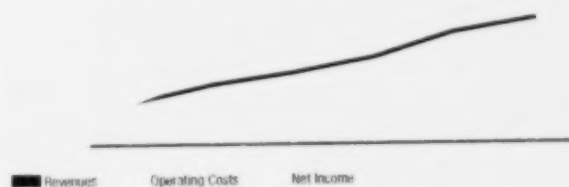
Net income of \$727.6 million was \$2.6 million greater than budget and \$56.7 million greater than last year. As a percentage of sales, net income increased from 37.4% in fiscal 2002/03 to 38.5% in fiscal 2003/04, reflecting a shift in product mix to higher contribution casino games.

Revenues in Millions



Over the last four-year period, total gaming sales in British Columbia have increased from \$1.4 billion to \$1.9 billion, an increase of \$500 million or 35%. The majority of the growth has come from the introduction of slot machines, electronic bingo, improved gaming facilities and innovative new products. On January 15, 2002, BCLC assumed responsibility for paper bingo sales in commercial halls.

While gaming in British Columbia has grown significantly over the last few years, on a per capita basis it is moderate compared to other provinces in Canada. BCLC currently ranks eighth in Canada for per capita gaming income.



Revenues

Retail Network	688.2	705.5	717.2	742.4	747.0	766.3	(19.3)
Hospitality Network	219.0	231.5	245.5	226.2	213.4	223.7	(10.3)
	907.2	937.0	962.7	968.6	960.4	990.0	(29.6)
Direct Expenses	555.0	586.8	600.7	610.3	602.6	622.5	19.9
Operating Expenses	64.4	64.8	68.2	64.8	68.9	73.0	4.1
Net Income	\$287.8	\$285.4	\$293.8	\$293.5	\$288.9	\$294.5	(\$5.6)

Fiscal 2003/04 lottery sales of \$960.4 million were \$29.6 million less than budget and \$8.2 million less than last year. The decline in lottery sales is reflective of trends that are being experienced across Canada and is accentuated by weak performance from the hospitality network (bars, pubs, bingo halls). Relative to budget, \$24.6 million or 83% of the negative variance was the result of weak sales performance from two products, Keno and Pull Tab. Both of these products are marketed primarily through the hospitality network.

Direct expenses of \$602.6 million were \$19.9 million less than budget and \$7.7 million less than last year. The decrease in direct costs reflects a reduction in prizes and commissions required to support lower sales.

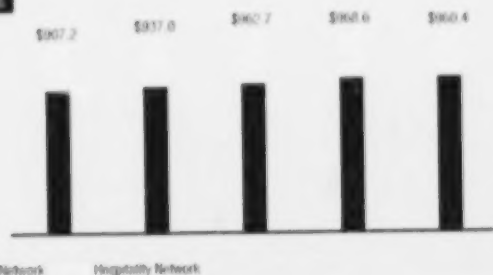
Operating costs of \$68.9 million were \$4.1 million less than budget, but \$4.1 million greater than last year. The positive budget variance is the result of lower amortization and operational cost savings. The increase in operating costs over fiscal 2002/03 is the result of additional expenditures for advertising, marketing, salaries and equipment costs.

Fiscal 2003/04 net income of \$288.9 million was \$5.6 million less than budget and \$4.6 million less than last year as a result of lower sales compared to budget and the previous year.

BCLC's lottery network consists of about 3,300 retail and 1,200 hospitality locations. Current lottery products in British Columbia are considered to be mature. Over the last five-year period, sales growth has roughly matched inflation. Competition from other forms of gaming and entertainment, a decline in discretionary income, shifts in consumer traffic patterns and significant changes at retail have all contributed to a flattening of lottery sales. The maintenance of current lottery revenues and building future growth will be achieved through introducing new, innovative games, strengthening the marketing of existing games and the continuing development and refinement of the retail network.

Operational highlights for the lottery division in fiscal 2003/04 included the replacement of 435 existing lottery terminals with new technology terminals, the development and implementation of new self-service and visual-display technology for the hospitality gaming network, the introduction of new games, including Extravaganza and Canucks Scratch & Win, and the addition of about 350 new locations to the lottery network.

\$ in millions



Revenues

Slot Machine	230.5	268.9	311.7	373.6	463.5	475.0	(11.5)
Table Games	214.7	223.4	240.7	254.5	269.9	250.0	19.9
	445.2	492.3	552.4	628.1	733.4	725.0	8.4
Direct Expenses	154.2	170.3	193.1	218.3	252.3	247.1	(5.2)
Operating Expenses	48.7	50.2	59.8	56.2	62.8	64.0	1.2
Net Income	\$242.3	\$271.8	\$299.5	\$354.6	\$418.3	\$413.9	\$4.4

Fiscal 2003/04 casino net win of \$733.4 million exceeded budget by \$8.4 million and the previous year by \$105.3 million. The addition of 480 new slot machines to the casino network, the replacement of 1,200 existing slot machines with new interactive games, and continuing sales growth from table game operations were the primary drivers of the sales growth.

Direct expenses of \$252.3 million were \$5.2 million greater than budget and \$34.0 million greater than last year. The increase in direct costs was the result of greater than budgeted sales and a shift to higher cost table games.

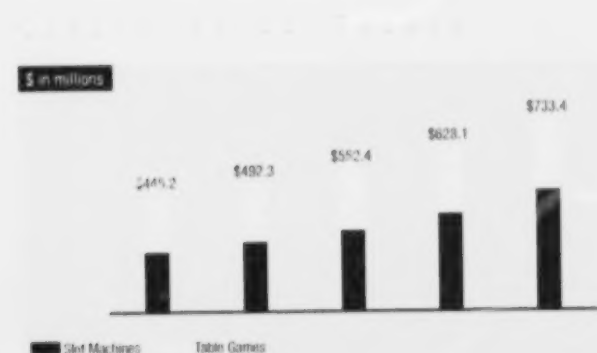
Operating costs of \$62.8 million were \$1.2 million less than budget and \$7.6 million greater than last year. The decrease in operating costs relative to budget reflects lower costs for amortization and GST. The increase in operating costs from the previous year includes unplanned restructuring costs and funding for a special policing division established by Government during

the year that will focus solely on gaming issues, including illegal gaming activities.

Fiscal 2003/04 net income of \$418.3 million was \$4.4 million greater than budget and \$63.7 million greater than last year as a result of increased sales.

The Corporation's casino network includes 15 community and four destination casinos that operated 3,832 slot machines and 377 table games in fiscal 2003/04.

Operational highlights for the casino division in fiscal 2003/04 included the replacement of 1,200 existing slot machines with new interactive games, the addition of 480 slot machines to the casino network, and senior and host local government approvals to relocate or upgrade casinos in Vancouver, Richmond, Langley, Prince George, Surrey, and Coquitlam.



BINGO OPERATIONS

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Revenues							
Paper Bingo	3.1	2.7	29.1	116.2	107.5	105.0	2.5
Electronic Bingo	46.0	51.0	63.2	79.5	88.2	80.0	8.2
	49.1	53.7	92.3	195.7	195.7	185.0	10.7
Direct Expenses	36.7	39.0	69.7	158.4	160.2	153.3	(6.9)
Operating Expenses	10.5	9.8	9.8	14.5	15.1	15.1	(0.0)
Net Income	\$1.9	\$4.9	\$12.8	\$22.8	\$20.4	\$16.6	\$3.8

Fiscal 2003/04 bingo sales of \$195.7 million were \$10.7 million greater than budget and equal to last year's results, despite operating with fewer facilities. While traditional bingo paper sales continue to decline, performance from new electronic games has

been increasing, stabilizing the overall decline in sales that has been evident for the last several years.

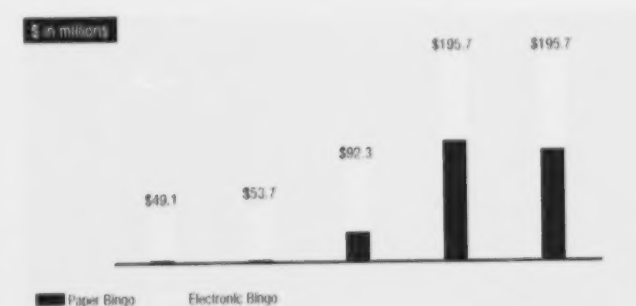
Direct expenses of \$160.2 million were \$6.9 million greater than budget and \$1.8 million greater than last year. The increase in direct costs reflects an increase in prizes and commissions to support higher than budgeted sales and the new operator compensation agreement that was introduced in January 2003.

Operating costs of \$15.1 million were on budget but \$600,000 greater than last year. Positive variances for general administration and amortization were partially offset by higher expenditures for GST.

Net income of \$20.4 million exceeded budget by \$3.8 million, but was \$2.4 million less than last year. The decrease in net income from the previous year is the result of increased service provider commissions required to enhance facilities and improve customer service.

The Corporation offers bingo products through a network of 32 commercial halls and about 20 independent operators. These products include electronic bingo (Starship), linked bingo (SuperStar Gold) and paper bingo.

Operational highlights for the year included the addition of two new electronic sites in Esquimalt and Prince George and the relocation/upgrading of bingo halls in Nanaimo and Kamloops.



(as at March 31, 2003)

Revenues	874.2	442.6	134.5	175.9	2,186.9	1,774.5	139.5	180.9	30.2	105.3	6,044.5
Terminals	3,747	2,134	837	845	7,903	8,305	1,000	1,304	174	1,229	27,478
Revenues	628.1	662.9	163.5	162.2	3,630.7	741.7	0.0	90.4	0.0	0.0	6,079.5
Table Games	392	410	73	66	541	213	0	56	0	0	1,751
Slot Machines	3,304	6,476	2,012	1,815	19,794	5,730	0	1,099	0	0	40,230
Revenues	0.0	711.6	224.4	211.6	0.0	1,077.0	119.0	182.1	15.7	119.1	2,660.5
VLTs	0	5,995	3,760	5,198	0	14,301	2,560	3,234	406	2,597	38,051
Total Gaming Revenues	1,502.3	1,817.1	522.4	549.7	5,817.6	3,593.2	258.5	453.4	45.9	224.4	14,784.5
Gaming Devices	7,443	15,015	6,682	7,924	28,238	28,549	3,560	5,693	580	3,826	107,510
Adult Population	3,271,495	2,366,816	751,688	864,957	9,338,114	5,898,855	595,635	741,950	107,696	420,565	24,357,771
Per Capita Adult Spend	459.2	767.7	694.9	635.6	623.0	609.1	434.0	611.1	426.2	533.6	607.0
Gaming Devices per thousand population	2.3	6.3	8.9	9.2	3.0	4.8	6.0	7.7	5.4	9.1	4.4

With the introduction of gaming policy in 1997 that allowed for the introduction of slot machines, gaming revenues in British Columbia have increased significantly. While gaming revenues in British Columbia have grown over the last five years, on a per capita basis, gaming spend remains moderate compared to other provinces in Canada.

As illustrated in the table above, in fiscal 2002/03, British Columbia gaming spend is ranked eighth in Canada and British Columbia has fewer gaming devices per thousand population than any other province. This moderate spend is consistent with Government's gaming policy and the Corporation's objective to market gaming in British Columbia in a socially responsible manner.

Notes:

1. Casino and video-lottery statistics obtained from KPMG Canadian Gaming Industry Highlights (2003).
2. Lottery statistics obtained from industry publications.
3. Gaming comparisons do not include Pull Tab and Bingo statistics as this information is not readily available from all provinces.

A strong and vibrant provincial economy	• Fiscal 2003/04 net income of \$727.6 million generated for Government • Gaming supports an estimated 8,500 direct jobs and another 5,000 indirect jobs in the province • Excluding prizes, more than 75% of expenditures paid to private sector partners • Strategic partnerships with key British Columbia businesses
A supportive social fabric	• Gaming revenues provide funding to more than 5,800 charitable organizations • Strong focus on responsible play
Safe, healthy communities	• Gaming revenues provide significant funding for core Government programs, including health care and education • BCLC is committed to ensuring that players play responsibly and have access to information with respect to the risks of gambling
High standards of accountability and ethics	• Corporate values that focus on accountability, integrity and good governance
Efficient delivery of services	• Strategic initiative that focuses on operational excellence in people, practices and systems • Reduction in operating costs from 4.8% to 4.6% over the next three years
Social and fiscal responsibility	• Commitment to socially responsible gaming and long-term stewardship of the gaming industry in British Columbia
Open and transparent	• Open communications with the public, business partners and consumers
Innovative and goal-oriented workforce	• Corporate values that focus on high performance and innovation

In fiscal 2003/04, BCLC formally implemented Enterprise-wide Risk Management (ERM).

The goal of ERM is to create and enhance value to the organization and its key stakeholders by managing uncertainties that could either negatively or positively impact BCLC's ability to achieve its goals.

The following table summarizes key risk and capacity issues facing the organization and mitigating strategies.

Lottery sales in British Columbia and across Canada are stagnant or declining. Bingo sales in British Columbia and across Canada have been declining for a number of years. High-quality and larger gaming facilities in neighbouring jurisdictions compete with casinos in British Columbia for casino entertainment spending.	BCLC is developing new, innovative products and investigating new distribution channels to increase entertainment value and convenience to the player. Since assuming responsibility for commercial bingo in January 2002, sales have stabilized. BCLC is transforming the bingo market through improved facilities and the introduction of new games and other forms of entertainment. BCLC's Business Plan provides for the development of fewer, higher-quality casinos sized to fit the marketplace.
The Gaming Control Act requires that local governments provide approval for acceptance or relocation of casinos and bingo halls in their communities. Delays or the inability to obtain the necessary government approvals present a risk to delivering on revenue targets.	BCLC has developed an extensive communication and relocation process to ensure communities and key stakeholders have adequate information to make informed decisions.
Without strong public acceptance and support, the Corporation's ability to achieve its business and revenue objectives may not be achieved.	BCLC is continuing to adopt industry best practices that promote responsible play. BCLC is developing and implementing programs to better inform the public about the beneficiaries of gaming. BCLC continues to place the highest level of importance on the integrity of games, processes and people.
The complexity and size of BCLC's business has increased with the addition of responsibilities to conduct and manage casino and bingo gaming.	BCLC has developed internal resources and recruited outside expertise to manage growth in the business. BCLC continues to work closely with its business partners to ensure they have adequate information and technology to manage the business.

The following Report on Performance reports on the four goals and related objectives, strategies, performance measures and targets that were established as part of the Fiscal 2003/04 – 2005/06 Service Plan.

As a note of reference, during the planning process for fiscal 2004/05 and the resulting Fiscal 2004/05 – 2006/07 Service Plan, the Corporation increased the number of goals from four to five and made revisions to the related objectives, strategies, performance measures and targets.

The goals and objectives were revised to better align with the Corporation's Strategic and Business Plans.

These new goals and objectives will be reported in next year's Annual Report.

- Increase the quality and entertainment value of our gaming products and facilities in British Columbia
- Improve the quality of casinos by completing all eligible casino locations and through upgrades of existing facilities.
- Invest in the development of more interactive products offered to consumers

Player Participation	n/a	60% actual	58% actual 61% target	62%	63%	65%
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BCLC is a commercial Crown corporation that offers consumer gaming products in a competitive marketplace. It is the goal of the organization to provide high-quality gaming entertainment that meets or exceeds the expectation of players, while at the same time balancing revenues generated from gaming with the social impacts on individuals and communities.

As a key measure, BCLC tracks player participation through the lottery, casino and bingo distribution channels. It is the goal of the organization to increase responsible play across a broad range of demographic groups through the introduction of new, innovative games and high-quality gaming facilities.

Player participation decreased slightly in fiscal 2003/04 and missed the target by 3%. Lower player participation has been more evident in lottery and bingo games, reflecting the mature market, with casino play increasing.

In fiscal 2003/04, BCLC continued to introduce new, innovative products and make improvements to the distribution channels and facilities through which gaming is offered.

In the lottery division, along with the development of a new marketing relationship with the Vancouver Canucks and the introduction of a new hockey-themed game, BCLC increased the lottery network by about 350 accounts and introduced self-service technology and visual-display technology in the hospitality network.

In the casino division, a major initiative of BCLC is to improve casino gaming facilities through the development of fewer, higher-quality casinos sized to fit the marketplace. During the year, BCLC was successful in obtaining local government approvals for the relocation or upgrades of casino gaming facilities in Richmond, Langley, Prince George, Coquitlam, Surrey and Vancouver. The Corporation also replaced 1,200 older technology slot machines with new interactive games and added 480 slot machines to the casino network.

BCLC assumed responsibility for commercial bingo in January 2002. Bingo is a mature product and sales have been declining for a number of years. It is the Corporation's goal, working in partnership with bingo service providers, to transform and reinvigorate the bingo industry through new or upgraded facilities and the introduction of new innovative games. During the year, BCLC added new electronic bingo sites in Esquimalt and Prince George and relocated or upgraded existing locations in Nanaimo and Kamloops.

- To build greater public support and trust

- Increase the public's awareness of the beneficiaries of gaming in British Columbia
- Promote and support responsible play programs in British Columbia

Public support of gaming	n/a	57% actual	58% actual 58% target	59%	60%	65%
Public support of BCLC	n/a	72% actual	74% actual 71% target	72%	73%	75%
Public awareness of the beneficiaries of gaming	n/a	35% actual	34% actual 35% target	40%	45%	50%
Public recognition for social responsibility	56% actual	55% actual	56% actual 59% target	60%	60%	65%

Public support of gaming and BCLC both increased in fiscal 2003/04. While these measures are improving and have achieved target, BCLC is aware that there is still a low level of public recognition and knowledge of the role the Corporation plays in gaming, our emphasis on gaming integrity, and the benefits gaming generates for British Columbia. In response to this low level of awareness, we are developing communication programs that will inform the public of the benefits generated by gaming and, specifically, a communication program that informs the public "Where the Money Goes." These programs will be delivered through www.bclc.com and other existing communication channels, including the Annual Report, Service Plan, retailer and business partner communications and existing advertising and marketing campaigns.

The Corporation and Government recognize that aspects of gaming policy are inherently controversial. Of the total adult population, an estimated 96% do not have problems with gaming, and most that choose to participate do so for social and recreational purposes. The Corporation recognizes the importance of ensuring that problem gambling issues are addressed through public awareness, education, prevention and treatment programs. During the year, a responsible gaming framework was developed that sets out the roles and responsibilities for both Government and BCLC. Additionally, an Appropriate Response Training program for BCLC employees and gaming partners was developed and introduced in fiscal 2003/04.

In March 2003, Government released a report on the prevalence of gaming in British Columbia. Key findings of the study concluded that the incidence of problem gamblers in British Columbia is consistent with other provinces and the incidence of problem gambling remains relatively unchanged since previous studies in 1993 and 1996.

- To be a high-performance organization

- Implement a performance management system that recognizes innovation, results and accountability
- Engage all employees in the success of the organization
- Attract, develop and retain the right people with the right skills through employee development and competitive compensation policies.

Key Performance Indicators						
Net Income per employee (\$ m)	\$.99	\$1.25 actual	\$1.30 actual \$1.29 target	\$1.48	\$1.62	\$1.71
Employee Engagement	n/a	n/a	56% n/a target	75%	78%	80%

As part of BCLC's planning process this year, the Corporation implemented the Balanced Scorecard as a managerial tool to fully integrate the organization's Service Plan, Business Plan and operational budgets. The Balanced Scorecard provides a common framework for business units, departments and employees to define plans and performance measures that directly link to the Service Plan.

During the year, the Corporation also initiated an ongoing program to strengthen organizational health and performance. The intent of this program is to develop and implement practices in the organization that instill a higher performance culture that supports and promotes employee engagement and leadership development. One example is the redesign of the Corporation's performance appraisal system that directly links results back to business plans and has a direct impact on compensation.

Net income generated per employee is one of the key performance measures tracked by BCLC. In fiscal 2003/04, net income generated by each employee increased to \$1.3 million, an increase of \$50 thousand or 4.0%. The increasing profitability can be attributed to continuing growth in the business, increasing employee productivity and the utilization of technology to streamline or automate business processes.

In March 2004, BCLC completed a comprehensive employee survey that was designed to measure employee engagement. This measure, which replaces the previous employee satisfaction measure, places BCLC in the mid-range of companies that have completed similar surveys and provides the organization with a road map for the future.

• Maximize income to Government of British Columbia within the policy guidelines established by Government • Operate the business in the most effective and efficient manner possible						
• Continue to develop and invest in products, gaming facilities and distribution channels that generate new income • Develop and implement a viable business model for commercial bingo • Upgrade the organization's technology infrastructure to support current and future growth						
Net Income (\$m)	\$606.1 actual	\$670.9 actual	\$727.6 actual \$725.0 target	\$850.0	\$950.0	\$1,010.0
Profit Margin	37.7% actual	37.4% actual	38.5% actual 38.2% target	40.3%	40.7%	39.3%
Profit per capita	\$189.2 actual	\$206.2 actual	\$219.9 actual \$219.2 target	\$252.6	\$277.7	\$290.3
Operating Cost Ratio	5.5% actual	4.6%	4.8% actual 4.8% target	4.8%	4.6%	4.6%

For the 29th consecutive year, BCLC achieved record sales and profits. The replacement of existing slot machines with 1,200 new interactive games, the addition of about 350 new lottery accounts and two new electronic bingo sites all contributed to the continuing growth in sales and profit.

BCLC continues to invest in products, gaming facilities and distribution channels to generate new income. In the lottery division, in addition to the new accounts opened during the year, two new products, Extravaganza and a Canucks Scratch & Win game, were introduced. In the casino division, in addition to the introduction of new interactive games, a new casino was opened at the Fraser Downs racetrack on April 5, 2004. Relocated or upgraded casinos are scheduled to open in Richmond, Langley, Prince George, Coquitlam and Vancouver in fiscal 2004/05. In the bingo division, the Corporation's plans provide for the development of six to eight community gaming centres in fiscal 2004/05. These upgraded facilities will replace existing bingo halls and provide the player with new interactive games, including slot machines.

During the year, BCLC made significant progress on the replacement or upgrading of the Corporation's technology infrastructure. Major achievements included the piloting and introduction of a new lottery terminal, the deployment of the casino management system in 10 new locations, the installation of a new electronic gaming system at the Kamloops bingo hall and the replacement of the Corporation's financial systems with an enterprise-wide integrated system.

In fiscal 2003/04, net income of \$727.6 million was \$56.7 million or 8.5% greater than the previous year. BCLC's profit margin continues to improve as the higher contribution casino games become a larger part of the business. Future growth in the business will be achieved through the continuing improvement and consolidation of gaming facilities and the introduction of innovative and player-focused games.

In fiscal 2003/04, BCLC's adult per capita net income was \$219.9. While this represents an increase from the previous year, British Columbia's per capita gaming revenues remain below the Canadian average, reflecting both Government's and BCLC's emphasis on moderate gaming policies.

BCLC's fiscal 2003/2004 operating cost ratio of 4.8% was on budget, but higher than the previous year. The increase in the operating cost ratio is the result of BCLC developing infrastructure to support future growth in the business.

*Annual
Revenues*

75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04
7.9	12.1	32.0	33.6	60.7	73.7	97.5	100.8	110.5	174.8	244.6	330.1	444.9	469.6	524.2	548.1	603.3	676.4	738.5	769.1	780.8	797.0	867.5	942.2	1261.5	1401.5	1485.0	1607.4	1792.4	1889.6

*Annual
Net Income to
Government
of British
Columbia*

75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04
5.0	4.2	14.6	17.7	26.1	16.7	24.8	31.5	27.5	59.3	85.3	103.1	139.5	166.6	189.6	200.2	211.9	219.0	227.0	233.8	234.3	244.1	266.2	283.4	449.0	524.8	554.6	598.5	663.1	719.7

*Annual
Prizes*

75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04
4.0	6.1	16.0	17.8	30.4	36.9	48.8	50.4	55.3	87.4	122.3	150.8	204.0	216.3	247.7	259.3	294.0	337.8	370.1	390.6	403.3	416.7	456.4	483.0	508.2	508.8	539.2	575.1	650.2	643.1

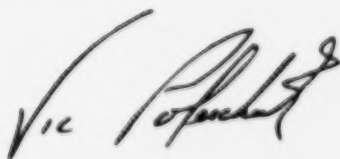
*Commissions
and service fees
paid to Lottery
Retailers, and
Casino and Bingo
Service Provider
Companies*

75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04
0.4	0.6	1.6	1.8	3.0	3.7	4.9	5.0	5.5	8.7	12.2	18.7	24.7	25.6	28.8	30.2	36.0	37.6	48.5	51.3	53.0	54.4	57.6	72.1	175.5	220.9	241.2	272.8	321.7	356.8

he financial statements of British Columbia Lottery Corporation have been prepared by management in accordance with generally accepted accounting principles. The financial statements present fairly the financial position of the Corporation as at March 31, 2004, and the results of its operations and the changes in its financial position for the year then ended.

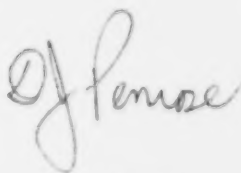
Management is responsible for the integrity of the financial statements and has established systems of internal control to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and financial records are properly maintained to facilitate the preparation of reliable financial statements in a timely manner.

KPMG, LLP, Chartered Accountants have performed an independent audit of British Columbia Lottery Corporation. The Auditors' Report outlines the scope of this independent audit and expresses an opinion of the financial statements of British Columbia Lottery Corporation.



Vic Poleschuk

President and CEO



Doug Penrose

Vice-President, Finance and Corporate Services

To the Directors of

British Columbia Lottery Corporation:

We have audited the consolidated balance sheet of British Columbia Lottery Corporation as at March 31, 2004 and the consolidated statements of income, amounts due to Government of British Columbia, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2004 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act, (British Columbia), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Accountants

Kamloops, Canada

April 16, 2004

(in thousands of dollars)

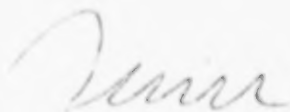
2004

2003

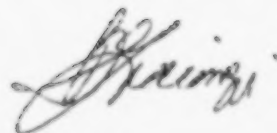
Cash and short-term investments	\$ 72,761	\$ 93,970
Accounts receivable (note 3)	44,032	48,617
Prepaid expenses	6,945	7,351
Accrued pension plan asset (note 4)	5,265	3,883
Property, plant and equipment (note 5)	55,106	30,855
	\$ 184,109	\$ 184,676
Prizes payable	\$ 40,944	\$ 55,113
Accounts payable and accrued liabilities	54,789	55,439
Accrued post retirement benefit obligation (note 4)	16,163	13,807
Payable to Interprovincial Lottery Corporation	1,797	2,212
Due to Government of British Columbia	70,416	58,105
	\$ 184,109	\$ 184,676

See accompanying notes to consolidated financial statements.

Approved:



T. Richard Turner
Director



Bruna Giacomazzi
Director

(in thousands of dollars)

2004

2003

Revenues (note 6)	\$ 1,889,637	\$ 1,792,411
Direct expenses:		
Prizes	643,098	630,183
Commissions	356,777	321,744
Ticket printing and bingo paper	15,133	15,118
	1,015,008	987,045
Revenues less direct expenses	874,629	805,366
Operating expenses (note 14):		
Administrative expenses	90,597	83,031
Special operating costs (note 7)	1,205	500
Amortization	24,724	20,905
Less: Interest and other income	(1,316)	(2,906)
	115,210	101,530
Income before special policing costs and GST expense	759,419	703,836
Special policing costs (note 8)	543	—
GST expense	31,233	32,899
Net income	\$ 727,643	\$ 670,937
Allocation of net income:		
Government of British Columbia	\$ 719,731	\$ 659,862
Government of Canada (note 9)	7,912	7,767
Payments pursuant to ministerial direction (note 10)	—	3,308
	\$ 727,643	\$ 670,937

Segmented information (note 14)

See accompanying notes to consolidated financial statements.

(in thousands of dollars)	2004	2003
Balance, beginning of year	\$ 58,105	\$ 50,074
Net income	727,643	670,937
	785,748	721,011
Payments to Government of British Columbia	707,420	655,139
Allocation of income to Government of Canada	7,912	7,767
	715,332	662,906
Due to Government of British Columbia	\$ 70,416	\$ 58,105
See accompanying notes to consolidated financial statements.		

(in thousands of dollars)	2004	2003
Net income	\$ 727,643	\$ 670,937
Adjustments for:		
Amortization of property, plant and equipment	24,724	20,905
	752,367	691,842
Changes in non-cash operating items	(9,269)	13,653
	743,098	705,495
Payments to Government of British Columbia	(707,420)	(655,139)
Allocation of income to Government of Canada	(7,912)	(7,767)
	(715,332)	(662,906)
Additions to property, plant and equipment	(48,975)	(29,592)
Increase (decrease) in cash	(21,209)	12,997
Cash, beginning of year	93,970	80,973
Cash, end of year	\$ 72,761	\$ 93,970
See accompanying notes to consolidated financial statements.		

The British Columbia Lottery Corporation (BCLC) is a Crown corporation. BCLC was incorporated under the *Company Act* of British Columbia on October 25, 1984, and is continued under the *Gaming Control Act* (August 2002). As an agent of the Crown, the Province has designated the Corporation as the authority to conduct, manage and operate lottery schemes on behalf of the Province, including lottery, casino and bingo. BCLC is also the regional marketing organization for national lottery games which are joint undertakings by the provinces acting through the Interprovincial Lottery Corporation.

- (i) The financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles.
- (ii) The consolidated financial statements include B.C. Lottotech International Inc., a wholly owned subsidiary of the British Columbia Lottery Corporation.

Short-term investments are valued at the lower of cost and market.

The Corporation's policy on capital purchases is that any major purchase which has a future useful life beyond the current year will be capitalized. The Corporation's property, plant and equipment are recorded at their original cost and are amortized on the straight-line basis over their estimated useful lives, as follows:

Asset	Rate
Building and leasehold improvements	5 years
Furniture and equipment	5 years
Computer systems	3 years
Online gaming terminals	3 years
Pull tab vending machines	3 years
Signs and fixtures:	
Computer	3 years
Non-computer	5 years
Bingo equipment	3 years
Casino equipment	3 years

Amortization is prorated in the year the assets are put in use.

The Corporation has defined benefit pension plans covering substantially all of its employees. The benefits are based on years of service and the highest 60 consecutive months of pensionable earnings. The cost of this program is being funded currently by employee and employer contributions.

The Corporation also sponsors post retirement benefit life insurance and health care plans for substantially all retirees. The Corporation measures the costs of its obligation based on its best estimate.

The Corporation accrues its obligations under employee benefit plans as the employees render the services necessary to earn the pension and other employee future benefits. The Corporation has adopted the following policies:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages and expected health care costs.

(in thousands of dollars)

- For the purpose of calculating expected return on plan assets, those assets are valued at fair market value.
- Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment.
- An unfunded liability may be amortized over no more than 15 years through special payments as required under the Pension Benefits Standards Act. A funding excess may be applied immediately to reduce required employer current service contributions, however, the reduction in contributions may not cause the funding excess to drop below 5% of the pension plan benefit obligation. Further, the use of a funding excess must be amortized over a minimum of 5 years.

Revenue from the sale of lottery tickets and the associated selling costs and prize expenses are included in the statement of income in the period the ticket is sold.

Revenue from the operation of paper, electronic, and linked Bingo and the associated selling costs and prize expenses are included in the statement of income in the same period the game is played.

Revenues from casino slot machines and table games are recorded in the statement of income, net of prizes paid, in the same period the game is played. Related operating costs are recorded in the statement of income in the period they are incurred.

Lottery prize expenses are recorded based on the theoretical prize liability expected for each game. The actual expense incurred each year will vary from this estimate based on the nature of games of chance. Over a long period of time, it is expected that the actual prize expense will approximate the theoretical expense. Expired prize funds are to be paid out to the player in the form of bonus prizes and/or bonus draw promotions.

Software development costs are deferred if they meet certain criteria specified by Canadian generally accepted accounting principles, otherwise they are expensed as incurred. At year end, the Corporation has not deferred any software development costs.

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Significant areas of estimate include pension plan assets, liabilities and expenses, prizes payable and expense, and GST liability and expense. Actual results could differ from those estimates.

As the Corporation is an agent of the Crown it is not subject to federal or provincial corporate income taxes or corporate capital taxes.

(in thousands of dollars)

	2004	2003
Retail	\$ 42,407	\$ 44,963
Other	1,625	3,654
	\$ 44,032	\$ 48,617

The Corporation has a defined benefit pension plan (RPP) and a post retirement benefit life insurance and health care plan covering substantially all of its employees.

Information about the Corporation's defined benefit plans is as follows:

	Pension Plans		Post Retirement Benefit Plans	
	2004	2003	2004	2003
Balance at beginning of year	\$ 40,589	\$ 34,901	\$ 20,011	\$ 12,991
Adjustment for supplementary plan at October 1, 2003	1,172	—	—	—
Adjustment for Early Retirement Program	—	1,700	—	—
Current service cost	1,532	1,403	1,099	919
Interest cost	3,139	2,787	1,413	1,038
Employee contributions	1,361	1,267	—	—
Benefits paid	(1,250)	(1,469)	(298)	(212)
Actuarial loss (gain)	7,835	—	3,061	5,275
Balance at end of year	54,378	40,589	25,286	20,011
Fair value at beginning of year	35,578	39,117	—	—
Annual return on plan assets	8,324	(5,162)	—	—
Employer contributions	3,904	1,825	298	212
Employee contributions	1,361	1,267	—	—
Benefits paid	(1,250)	(1,469)	(298)	(212)
Balance at end of year	47,917	35,578	—	—
Funded status - surplus (deficit)	(6,461)	(5,011)	(25,286)	(20,011)
Unamortized past service cost	1,113	—	—	—
Unamortized net actuarial loss (gain)	10,613	8,894	9,123	6,204
Accrued pension plan benefit asset (liability)	\$ 5,265	\$ 3,883	\$ (16,163)	\$ (13,807)

(in thousands of dollars)

Every three years an actuarial valuation is performed to assess the financial position of the pension plan. An actuarial valuation was made as of April 1, 2003 by Mercer Human Resource Consulting, a firm of consulting actuaries and then extrapolated to March 31, 2004. The Corporation will be having a valuation completed as of March 31, 2006. The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations are as follows:

	Pension Plans		Post Retirement Benefit Plans	
	2004	2003	2004	2003
Discount rate	7.5%	7.5%	7.5%	7.5%
Expected rate of return on plan assets	7.0%	7.0%	—	—
Rate of compensation increase	5.0%	5.0%	—	—
Health care cost trend rate:				
2004/2003	—	—	6.17%	5.10%
Ultimate	—	—	4.21%	4.10%
Year ultimate reached	—	—	2010	2005
Discount rate	6.5%	7.5%	6.5%	7.5%
Rate of compensation increase	4.5% for RPP	5.0%	—	—

The Corporation's net benefit plan expense is as follows:

	Pension Plans		Post Retirement Benefit Plans	
	2004	2003	2004	2003
Current service cost, net of employees' contributions (including provision for plan expenses)	\$ 1,532	\$ 1,403	\$ 1,099	\$ 919
Interest cost	3,139	2,787	1,413	1,038
Expected return on plan assets	(2,553)	(2,786)	—	—
Amortization of net actuarial loss (gain)	345	—	142	—
Amortization of past service cost	59	—	—	—
Net benefit plan expense	\$ 2,522	\$ 1,404	\$ 2,654	\$ 1,957

(in thousands of dollars)

			2004	2003
	Cost	Accumulated amortization	Net	Net
Land	\$ 700	\$ —	\$ 700	\$ 700
Building and leasehold improvements	23,715	21,897	1,818	2,390
Furniture and equipment	4,706	4,151	555	679
Computer systems	33,775	24,730	9,045	1,783
On-line gaming terminals	17,926	40,960	6,966	3,040
Pull tab vending machines	8,345	8,131	214	347
Signs and fixtures	9,540	7,260	2,280	1,890
Bingo equipment	22,834	18,831	4,003	4,687
Casino equipment	86,577	57,052	29,525	15,339
	\$ 238,118	\$ 183,012	\$ 55,106	\$ 30,855
			2004	2003
Keno			\$ 221,219	\$ 226,335
Scratch & Win			185,255	183,321
Lotto 6/49			161,000	171,682
Lotto Super 7			119,662	111,156
Pull Tab			87,611	94,433
Extra			70,551	72,184
BC/49			60,988	64,656
Sports Action			33,692	30,384
Living Large Lottery			8,705	7,989
Daily 3			4,262	4,393
Chaser			3,065	2,076
Special Event			4,421	—
			960,431	968,609
Bingo paper retail			107,497	116,214
Starship Bingo			64,852	55,816
SuperStar Gold			10,226	11,867
Handheld Bingo			13,146	11,781
			195,721	195,678
Slot machines			463,547	373,627
Table games			269,938	254,497
			733,485	628,124
Total revenues			\$1,889,637	\$1,792,411

(in thousands of dollars)

Special operating costs relate to the estimated restructuring costs associated with the Corporation's Core Services Review. Included in the costs are employee severance and early retirement costs and other costs related to the restructuring of the business.

In February 2003, based on direction from the provincial government, the Integrated Illegal Gaming Enforcement team (IIGET) was established. The financial resources required to operate the IIGET are provided by British Columbia Lottery Corporation pursuant to a Sponsoring Agreement with the Province. IIGET is a specialized division of the Royal Canadian Mounted Police that works cooperatively with Gaming Policy and Enforcement Branch to provide a comprehensive and integrated approach to the investigation and enforcement of the criminal code as it relates to illegal gaming activities in British Columbia.

The Interprovincial Lottery Corporation (I.L.C.) makes inflation-adjusted payments to the Government of Canada as a result of an agreement between the provincial governments and the Government of Canada on the withdrawal of the Government of Canada from the lottery field. The Corporation remits British Columbia's share of the above payments to I.L.C. Payments under this agreement are estimated to be \$8,200 for the next fiscal year ending March 31, 2005.

Pursuant to Section 22 of the Financial Administration Act, in fiscal 2002/03, the Corporation was directed to pay expenditures for the Problem Gambling Program.

The Corporation's share of the Interprovincial Lottery Corporation (I.L.C.) prize and ticket printing costs for national games is recognized in the appropriate category of direct expenses. The Corporation's share of the I.L.C.'s interest income less operating expenses is included in interest and other income.

The Corporation is committed to payments under operating leases for premises.

Minimum annual rental payments for the next five years are approximately as follows:

2005	\$ 1,730
2006	1,456
2007	466
2008	239
2009	145

(in thousands of dollars)

The carrying value of accounts receivable, prizes payable, accounts payable and accrued liabilities, and the payable to the Interprovincial Lottery Corporation are recorded at cost, which approximates fair value.

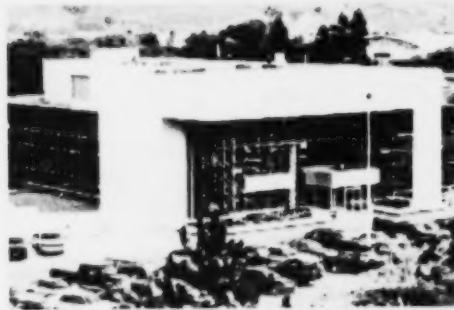
Year ended March 31, 2004

Sector of activity	Lotteries	Casinos	Bingos	Consolidated
Revenues	\$ 960,431	\$ 733,485	\$ 195,721	\$ 1,889,637
Prizes	524,527	—	118,571	643,098
Commissions	64,954	252,293	39,530	356,777
Ticket printing and bingo paper	13,075	—	2,058	15,133
	602,556	252,293	160,159	1,015,008
Revenue less direct expenses	357,875	481,192	35,562	874,629
Administrative expenses	55,171	28,633	6,793	90,597
Special operating costs	421	710	74	1,205
Amortization	4,978	16,102	3,644	24,724
Less: Interest and other income	(3,203)	1,576	311	(1,316)
	57,367	47,021	10,822	115,210
Income before special policing costs and GST expense	300,508	434,171	24,740	759,419
Special policing costs	190	319	34	543
GST expense	11,394	15,524	4,315	31,233
Net income	\$ 288,924	\$ 418,328	\$ 20,391	\$ 727,643

(in thousands of dollars)

Year ended March 31, 2003

Sector of activity	Lotteries	Casinos	Bingos	Consolidated
Revenues	\$ 968,609	\$ 628,124	\$ 195,678	\$1,792,411
Prizes	532,016	—	118,167	650,183
Commissions	65,404	218,328	38,012	321,744
Ticket printing and bingo paper	12,856	—	2,262	15,118
	610,276	218,328	158,441	987,045
Revenue less direct expenses	358,333	409,796	37,237	805,366
Administrative expenses	51,020	25,365	6,646	83,031
Special operating costs	191	275	34	500
Amortization	5,014	11,687	4,204	20,905
Less: Interest and other income	(2,840)	(121)	55	(2,906)
	53,385	37,206	10,939	101,530
Income before GST expense	304,948	372,590	26,298	703,836
GST expense	11,402	17,966	3,531	32,899
Net income	\$ 293,546	\$ 354,624	\$ 22,767	\$ 670,937



Head Office

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